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CGG.PA - Full Year 2017 CGG SA Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the CGG Fourth Quarter and Full Year 2017 Results Conference Call. Today's conference is being recorded.

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

Catherine Leveau - *CGG - SVP of IR*

Good morning, and welcome to this presentation of CGG fourth quarter and full year 2017 results. My name is Catherine Leveau, Head of Investor Relation.

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

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

The call today is being hosted from Paris, where Mr. Jean-Georges Malcor, CEO; and Mr. Stephane-Paul, Group CFO, will provide an overview of the fourth quarter and full year 2017 as well as provide comments on our outlook. Following the overview, we will be pleased to take your questions.

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

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

Thank you, Catherine. And ladies and gentlemen, thank you for participating in this conference call this morning. Our presentation will cover different important topics: our Q4 2017 results and full year operational and financial results, on one hand; and the delivery of our financial restructuring, on the other hand.

So going on, starting with the Q4 2017. I'm on Slide 5 of the presentation. Let me summarize briefly our Q4 achievements.

The results were clearly better this quarter. We posted another year-on-year growth in revenues, with solid EBITDA, driven by strategically positioned multi-client sales, stronger volumes in Equipment and good operational performances overall.

Our group revenue were at $401 million, up 22% compared to Q4 2016. GGR revenue were boosted by solid multi-client aftersales performance, driven themselves by licensing rounds in Brazil and North Sea. Equipment revenue were showing a very strong volume increase. And Contractual Data Acquisition revenue were lower this quarter in Marine as 75% of the fleet was dedicated this quarter to multi-client service.

Our EBITDAs were at $134 million, up 34% year-on-year and showing the 33% margin. 2 divisions positively contributed to the EBITDA this quarter, one being GGR, as usual; the other one being the Equipment, for the first time in many quarters.

Operating income was up 38% and positive for the first time in 8 quarters at $18 million. It was made of positive contribution for multi-client aftersales and from the stronger volume sales in Equipment. In market conditions, which remain difficult, the Contractual Data Acquisition segment was impacted by bad weather and mobilization delays, both in Marine and Land. All in all, the operational free cash flow was positive this quarter.

Now moving to Slide 6 and to the full year. As anticipated, the market conditions remain very difficult during the year, globally, both in terms of volume and in price. In this context, we were expecting at the beginning of the year a 2017 year very similar to 2016. Finally, and thanks to a good Q4, sales were finally up 10%; and EBITDA is up 14%. So that's rather good news. Let me give you more color on those points.

For the first time in 3 years, our group revenue were up 10% at $1,320,000,000 so 10% compared to 2016, of course, 10% up. GGR revenue was up with resilient SIR and with sustained multi-client sales boosted by Brazilian licensing rounds, Mexico and the North Sea.

Equipment sales as a whole were down 5%, but more importantly, external sales were up 20%. Contractual Data Acquisition revenue were up, driven by the delivery of 2 large contracts with high-end multi-source vessels setup in Mexico and in Norway. As you know, we operated both large contracts, including one multi-azimuth -- wide-azimuth contract in Mexico and one in North Sea using a complex and proprietary technology called Topseis, which is, by the way, delivering excellent results. In those setups, we used several sources vessel, which generated high level of pass-through sales.

Our EBITDAs was at $370 million, up 14% year-on-year and showing a 28% margin, a slight increase versus 2016. As usual, GGR remains the main EBITDA contributor.

Operating income was still negative at minus $77 million, still impacted by very low market condition, but in good progression compared to 2016. Having said so, '17, as you know, has been the year of the financial restructuring. During this year, we managed to maintain our focus and priorities on strong operational delivery with further reduction of our cost base, strong CapEx discipline. And throughout this difficult period, CGG benefited from the continuous confidence of its clients and the full commitment of its employees, and I would like to once again thank them.

But with this operational priority in mind, we nevertheless delivered on the various milestone as programmed on our financial restructuring plan. I will come back on that in a second.

But before going to the restructuring plan, let's give you -- let me give you more color on the operational environments of each of the segments of the company. I'm on Slide 7.

GGR revenue was up 5% year-on-year at $820 million, with solid multi-client sales boosted by licensing rounds in key basins. Our strategic positioning in key major basins is paying off. The multi-client revenue was up 22% at $469 million. Multi-client sales were very good in Brazil, and globally, good in all our key sedimentary basins, including, most particularly, Mexico and the North Sea.

We have a good set of data strategically positioned over these areas of prime interest for our customers. And of course, we sold data related to the future licensing rounds, which has been once again a good triggering for the sale of this data.

In onshore U.S., we also benefited from our positioning, on one hand; but also from uplift revenue. In Brazil, taking that as an example, we have a very large 3D multi-client library in the Santos Basin, and we offer to the industry an ultra-modern exploration datasets fully reprocessed to support the 2017 pre-salt licensing round. And we are also extremely well positioned for the 2 next one coming in '18 and '19.

Prefunding sales were stable at $269 million, but more significantly, aftersales were up 80% at $200 million. Once again, we reached a very good cash prefunding rate of 117 -- sorry, 107% this year, way above our target of 70%.

48% of the fleet was dedicated to multi-client programs this year, quite similar to last year. We are slightly below our target of 2/3 of the fleet allocated to multi-client as we were completing in '17 2 important contractual large surveys, as discussed before. On this matter and going forward, as we execute 2 large contracts of South Africa at the time being, 45% of our fleet in Q1 2018 will be allocated to multi-client surveys and 50% will be allocated in Q2.

Now going to Subsurface Imaging & Reservoir revenue. Revenue was down 13% year-on-year at $351 million, which is in line with, globally, the low client spending, particularly at the beginning of the year. Globally, SIR is a very resilient activity. The decrease was in line with our expectation, given the time lag between data acquisition and data processing, which is as you know, roughly 1 year. All in all, our market share was preserved, and backlog is showing an encouraging upward trend.

GGR reached an EBITDA of $486 million and a 16% operational profitability, with an operating income at $131 million. The 5-point margin increase versus last year is mainly explained by the higher number of fully depreciated survey among our multi-client aftersales. Multi-client depreciation rate went down from 84% of 63% to -- of 63% in 2016. The lower rate indicates that the surveys we sold were already amortized, i.e. older. The margin increase there is coming from the continuous overall efforts on the cost side.

Now going on Slide 8. The Equipment business continues to be impacted by persistent low volumes. Total Equipment revenue this year reached $241 million, down 5% year-on-year. And this decline comes from internal sales, which were down 66% at $26 million. You might remember that in 2016, we purchased a set of new streamers from Sentinel MS, but one of our vessel, which was not the case in 2017. However, and more importantly, Equipment external sales were up 20% year-on-year at $260 million. This is obviously an important indicator of the market dynamics.

And now, if we look at the subsegment level, overall, in 2017, the Marine sales represented 41% of total sales, and Land for 59%. This is quite in line with our usual breakdown. In Land, we saw a strengthening of the artificial lift business, mainly related to the U.S.

With these very low volumes and despite the strong reduction in cost base, the EBITDA were negative at minus $6 million, and the operating income was negative at $36 million. But it is, however, interesting to analyze the Q4 results for the Equipment business.

In Q4, as sales were up 38% at $160 million, Equipment posted a positive operating income of $9 million, i.e. a 9% margin, which is a first time in 2 year. Equipment has renewed with operational profitability in Q4, validating what we have mentioned many times that volume would be the key driver for profitability increase in the future.

Going on Slide 9 and looking at the Contractual Data Acquisition business. This segment is still suffering from persistent weak market conditions, both onshore and offshore. Total Contractual Data Acquisition revenue was up 21% at $289 million, mainly driven by the Marine activity. Despite upward trend in oil prices, there is continued uncertainty in the market, and stability will be a major driver for exploration, which is more onshore in transition zones than offshore for the time being.

Marine revenue was $186 million, up 40%. This increase being driven by 2 large contracts with high-end multi-source vessel setup, as I explained earlier, on which roughly $15 million represent pass-through sales. Once again, we have conducted our operations with maximum professionalism, and our Marine teams have been achieving a very strong 97% production rate this year. The availability rate was also strong at 93% on a yearly basis, although Q4 suffered from bad weather conditions. We had an availability rate in Q4 at 82% due to weather standby, which directly impacted the segment profitability this quarter -- last quarter.

The positive impact of lower Marine cost base in 2017 was partly offset by noncurrent 216 -- 2016 R&D tax credit, on one hand; and by delays in weather condition in Q4. In the quarters to come, our fleet coverage is at 100% covered in Q1, 90% covered in Q2, so it's a very good coverage, and contract awards are moving up slightly but still with stable prices. With this high level of coverage and quite interesting development in the market, H2 dynamic could be quite different from today.

Land and Multi-Physics total revenue were at $102 million, slightly down year-on-year by 3%. Over the year, Land activity was impacted by delayed contract in Nigeria and one early termination of contract in Angola as the client did not get the proper financing. All in all, operating income contribution was negative at $91 million. As we said already, the market environment remains competitive, but, however, stabilized at low level.

Slide 10 on nonoperated resources. The nonoperated resources are mostly related to the nonactive part of our fleet, as you know, i.e. cold stack vessels and corresponding equipment. EBITDA was negative at minus $14 million this year. Operating income was still negative at $34 million this year, but sharply down compared to 2016, following the implementation of the Global Seismic Shipping, GSS. As you know, GSS is a joint venture at 50-50 with Eidesvik, which is accounted for in our books as equity for investments -- from investments.

The results of GSS will improve progressively as cold stack vessels are coming back as planned. As we are turning one vessel back to its owner at the end of its time chart, one is due to come back in Q2. I'm talking about the Endeavour and the Caspian.

So after this quick review of our operational segment, I now hand over the floor to Stephane-Paul Frydman, who is going to comment in more detail the financial figures.

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

Okay, I'm on Slide 12 and looking first at the P&L at the group level for the full year 2017.

So as said previously by Jean-Georges, over the year, the group revenue amounted to $1,320 million, up 10% compared to 2016, with the business mix quite in line with our rebalanced target despite the low level of the software sales. Therefore, GGR weighs for 62% of revenues, but Equipment only for 16% and Contractual Data Acquisition for 22%.

At the OpInc level, the group performance was minus $43 million for the operated perimeter and minus $77 million when including the NOR segment, corresponding to a significant year-on-year improvement. The contribution from investment in equity was at minus $120 million, being mainly explained, as said by Jean-Georges, by the negative contribution of GSS, the JV owning of former fleet when incorporated last April, and of our Vietnamese JV.

The net financial cost amounted to minus $207 million, following the secured interest rate modernization agreed upon in January 2017, and also including for $85 million cash cost of debt as we put on hold the payment of high-bond coupons all over the year. And last, including also a one-off of minus $25 million (sic) [$21 million] corresponding to the accelerated amortization of our historical issuing fees we booked in Q3 in relation with the extinguishment of the outstanding debt.

All in all, taking also into account minus $186 million of nonrecurring charges, mainly made at the tail of the booking of our Transformation Plan for circa $20 million, the noncash costs related to the GSS [mines] team for circa $65 million. And the financial restructuring cost was circa $100 million, net income stood eventually at minus $514 million.

Moving to the cash indicator on Slide 13. You see that at $372 million, our full year group EBITDA was up 14% year-on-year, being boosted by our high multi-client sales and above our initial guidance. Total CapEx at $335 million were down 15% year-on-year and tightly monitored with multi-client cash CapEx at $251 million, down 35% year-on-year and 107% prefunded, well above our full year target of 70%. It was well, also, with industrial CapEx at $50 million, down 24%; and stable R&D CapEx at $34 million.

The combination of the cash flow from operation, the global CapEx and $85 billion of interest paid led to a minus $100 million of full year free cash flow before the nonrecurring charges related to our Transformation Plan standing at minus $96 million. So it looks far lower than 2016 that stood at 7 -- minus $7 million, but we have to remind that 2016 cash generation was highly boosted by the circa $300 million positive change in working capital.

For the sake of the year-to-year comparison, it looks more relevant to compare the free cash flow before change in working capital with, in addition, a cash cost of debt 2016 normalized at $85 million, which is both the 2017 level and also illustrative of the cash cost of debt looking forward post financial restructuring. Based on such cash-generation metrics, 2016 and 2017 would stand, respectively, at minus $148 million and minus $42 million, showing a quasi plus $100 million improvement year-to-year.

On top of this such current free cash flow generation, the nonrecurring charges related to our Transformation Plan financial restructuring amounted this year to around $100 million over the whole year, 75% was going to payments of the initial adaptation measures launched in 2016. On such basis, we end the year at a liquidity level far better than originally anticipated, standing at $315 million by end of December.

Let's move now to the financial restructuring plan, which is, quite obviously, one of the major 2017 achievements. I'm on Slide 15.

So in the complex and challenging environment we navigated in over the last 4 years, we did a massive industrial transformation that we started to implement at the end of 2013. The Transformation Plan allows CGG to reduce drastically its capital intensity and to lower considerably its cost base, leading to a far more resilient business model. A few metrics can illustrate the journey we have been through.

Over 4 years, at the end of 2017, we achieved a 50% decrease in headcount, while CapEx reduced by 60% over the period, G&A expense reduced by 60% also and Marine monthly earnings cost structure went down by 80%.

Looking at the financial part of this transformation, I'm on Slide 16. The financial restructuring plan we agreed upon in June 2017 can be break down into 3 major parts: first, the full equitization of the principal amount of the unsecured debt, i.e. $2 billion leading to substantial group deleveraging; second, $800 million of secured debt maturity extended to at least 2023, with up to $158 million paid at closing; and eventually, I'll be back on that matter, a significant improved liquidity position, both to protect company in the event of operational sensitivities and to be able to finance future growth. So this new equity came from the $370 million new 2024 high-yield bond, the EUR 112 million right issue, and -- that led to above $250 million net new money, post the $150 million secured creditors repayment cash placement fee.

Moving on Slide 17, just looking at a glance of the CGG -- or pro forma post restructuring. You see that starting from a gross financial debt at $3 billion and liquidity at $315 million, with a financial leverage above 7x, we moved forward, post restructuring, on a pro forma basis, by December end, with a group -- with a gross financial debt at $1.2 billion and $575 million of liquidity, leading to a net debt of around $630 million, corresponding to a 1.7x leverage ratio.

As we erased part of the debt, it has to be noted that the completion of the financial restructuring that occurred on February 21 will have also huge accounting impact to be booked in Q1 2018. So the addition of around $0.75 billion, which will be booked at the P&L level and the issue of new shares for around $1.3 billion will be booked at the equity level. All of these, those 2 moves, will lead, all in all, to an equity increase of around $2.05 billion.

So focusing now on Slide 18 on the capital structure and the debt profile, you see that we will benefit from the rest of balance sheet. And on the senior debt profile, we'll benefit from gross debt down to $1.15 billion, a 5-year first maturity and cash cost of debt back to sustainable, giving the group size, meaning, at $85 million on a full year basis.

Looking also at the debt component we immersed with for the financial restructuring, it's worth to remind, on the one hand, the right bar, the $63 million high-yield bond first lien, is interest-weighted LIBOR plus 6.5% cash plus 2% PIK. We have to -- the possibility to refinance it in the short term in fully and not in part. Fully if such refinancing occurs before May 21, and for 3% cost if such refinancing occurs before August 31. When we miss such 6 month's refinancing window, we'll be exposed to non-call period ending February 21, 2021.

On the other hand, looking at the high-yield bond second lien for $361 million plus EUR 80 million, it is a debt instrument interest-weighted LIBOR plus 4% plus 8.5% PIK. It's callable partially or all in all at 120% any time up to February 21, 2020. So facing this $1.2 billion of gross debt, we will also benefit from a healthy liquidity situation as the financial restructuring led to $1 billion improvement compared to our previous hand. You are seeing that on Slide 19, where you see that the first half of such billion, i.e., $500 million is coming from savings compared to the situation we're in prior restructuring; $275 million provided by the Nordic restructuring component we spoke in the beginning of 2017; and $225 million corresponding to the reduced cash cost of debt, thanks to the massive equitization of our legacy debt.

The second half of the liquidity improvement, $500 million, correspond to the new financial resources being composed mainly by $300 million coming from the new money and $200 million coming from the flexibility of having the ability to raise additional secured debt in the future. So all in all, you see that the new liquidity situation will allow the company to face all market areas up to the 2019 horizon, i.e. the year at which CGG should be back to black in terms of cash generation.

And you see causing this cost debt and liquidity, as we told you already, we achieved restructuring that $2.2 billion debt reduction. And going forward, you see, on Slide 20, that the leverage ratio will be -- will remain below 2x. It has to be mentioned that, that leverage measurement relies on the EBITDA as we are seeing and computing now such accounting indicator.

So it's time for me to mention the risk forward related to the possible change of accounting practice following the application of the new norm IFRS 15, starting January 1, 2018. I don't want to be too long as it is very technical matter, but it can have major impact in terms of financial reporting and communication, as highlighted by our seismic peers in their recent communication.

While it was easily concluded that the application of the new IFRS norm to most of the CGG business should not trigger any significant change in the revenue-recognition policy, revenue recognition for multi-client during the prefunding phase, meaning before delivery, was put under close scrutiny and is still seen as a more questionable area. In line with what was disclosed by PGS, TGS and Spectrum, a preliminary analysis based purely on IFRS 15 form and applied to present contract later, showed that there was the high risk that all the revenues coming for the multi-client prefunded would have, under the new norm, to be recognized only at delivery of the final process data, which may be more than 1 year after acquisition of the data.

As we consider that such accounting treatment would not correspond to the business reality, i.e. the multi-client prepayments have to be seen as payments for service rendered and not as advance for future license, will deepen the analysis of the multi-client business characteristics, together with our auditors. This is leading us to shape up the conclusion that, subject to certain contractual documentation improvement and clarification, original participant contracts are services contracts for which revenue should be recognized over time based on that acquisition and processing progress of the survey. That would mean, looking forward under the application of IFRS 15, that we would stick to the existing accounting practice for pre-commitments. Such conclusion has been shared and discussed with other seismic players. This has not been yet endorsed by the auditors and by the regulators of financial markets where CGG shares are publicly traded. We intend to progress in the technical discussion with these bodies in the weeks to come to fix in narrow coordination with the other seismic players what should be the industry accounting practice on that matter.

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

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

Thank you, Stephane-Paul, and I'm on Slide 22. So after 3 years of sharp declines related to the very complex and challenging environment we have been through in the oil service sector, you can see from this slide that, at the group level, our 2017 revenues increased by 10% to $1.32 billion; and the EBITDA grew at 14%, showing a margin increase at 28.2%. This is a very good first step.

2017 has been clearly above our expectation, as at the beginning of the year, we were guiding towards flat 2017 compared to 2016.

Thanks to the good Q4 multi-client revenue, the 2017 group EBITDAs before restructuring costs was also higher than expected. And at the OpInc level, we remained negative in 2017, but with a sharp reduction of our losses from the 200 -- minus $213 million level in '16 to a minus $77 million in 2017.

So going on Slide 23, looking at 2018 and to conclude. The financial restructuring is now completed, and we start the year with a new balance sheet.

Revenue are expected to be up at circa $1.5 billion plus or minus 5% in a stabilized but, however, still uncertain market. As previously disclosed in our business plan, EBITDA margin should be within the 35% to 40% range. This is of course under the assumption, as just mentioned by Stephane-Paul, that the application of the IFRS 15 would not trigger any significant changes in the revenues recognition group policies, i.e. for the recognition of the revenues related to the multi-client pre-commitment. I remind you that our business plan is based on reasonable assumptions on market recovery in 2018 and 2019 with an oil price between $60, $65 at the end of the period.

Volume increase will be the key driver for our vision, especially in Equipment and GGR, with only a modest increase in pricing anticipated for the Data Acquisition segment. Multi-client cash CapEx are still expected to be within the $275 million to $325 million range, with cash prefunding rate above 70%. And industrial and R&D CapEx are expected to be in the $100 million to $135 million range. This increase is coming after 2 years of very tight CapEx management, and we should be back now to a more normal level of CapEx to maintain our excellence in delivery.

The cash cost of debt should be at circa $85 million. As previously said, this is a sustainable level of the financial fee the company can afford to pay, and this has been the base for our financial restructuring. The tail of the Industrial Transformational Plan cost -- cash cost should be limited at around $25 million as we are coming to the end of this plan.

And finally, we are starting the year with a strong liquidity level at $575 million on a pro forma basis. So with the restored balance sheet, with very strong and recognized technological position in all domains that we are operating in and with the proven operational excellence even for the terminal year of [restructuration], the group begins 2018 with renewed confidence and is ready to take full advantage of a rebound in the market.

So thank you very much, and now, we are ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Lillian Starke from Morgan Stanley.

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

I do have a couple of questions. The first one is if you could provide a bit of context on what you're seeing on the competitive landscape in the SIR business. Is there any sort of client are there operators that they're looking to close their reservoir business and maybe look more into the services that SIR could provide them? As well, your incumbent competitors, how has that landscape changed? And then my second question is if you could provide a bit of detail as well into the Sercel business where, as you mentioned, the improvement was quite strong during the fourth quarter. If you could share a bit of details where you're seeing mostly volumes picking up.

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

Okay. So on your first question, on the SIR business landscape, for the time being, we don't see major changes happening in the market today. The market is still very much partitioned in between the very high end where we play and some very basic vanilla processing capability that we may find in other competitors. And we are clearly #1 in this market, fully recognized by the customers. So as we go forward, the market seems to be picking up at the time being. After a strong recovery, as you know, there is a time lag between the acquisition and the processing side. The reprocessing request is still high. Now obviously, if things happening are happening in the market in terms of rebalancing the market or reshaping the market of -- we will be extremely proactive because this is at the heart of our business and this is clearly an area for us of prime importance. On the Sercel business side, happy to give you a bit more color on where the volumes may come from. Probably, 3 comments. First of all, a small thing, which is not very visible because it's only probably $10 million, $20 million, but out of $250 million, it's important now, is that we've seen quite a nice pickup on the artificial lift business and well equipment that we have in the U.S. That's a small one, but important. Then the 2 traditional business or market segments in which Sercel was playing in Russia and China are starting to open up slowly, but starting to open up again. And third, there is quite a fair bit of activity in the Middle East, where Sercel has opportunity, of course, because the level of tender from Egypt to Oman going to Saudi and the Emirates as a whole is quite sustained at the time being. So that will be the main areas. As we told you before, for Sercel, the rebound in '18 is mainly linked to the Land part of the business rather than the Marine part of the business.

Operator

We will now take our next question from Guillaume Delaby from Societe Generale.

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

Following this detailed presentation, I would like to dig a little bit about the future of CGG. Basically, now, you have new shareholders, and I would like to know what can you say today, if you can say something, regarding their plans. What is the vision of the company? And basically, also maybe are they going, or at least some of them, are they going to be represented at the Board of Directors? Clearly, according to you and according to what you can say today, what is the likely direction which is going to be given by those new shareholders?

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

Okay, I'll try to answer the best I can at the moment.

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

It's not an easy one. It's not an easy one.

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

You're right to say that, since the conversion, 21st of February, we have a new shareholder base, which is quite different from the one in the past. But the first element of answer to your question is that all of that has been done, all this restructuring and the conversion has been done on the basis of the business plan, which has been fully disclosed to the market. That's one that we presented. I remind you that this business plan shows an increase from 2017 to 2018 of about an additional 10% since we plan to be $1.5 billion, plus or minus 5%, in '18. And then going forward, '19, '20, around $2 billion, plus or minus 10%. So that's basically the plan which is underpinning all the financial restructuring, which occurred on the 21st of February. So that's really the basic hypothesis that you have to take to see the future of the company. Of course, all of that is dynamic. And perhaps, in 6 months, 1 year, there will be other ideas on the block, which will be quite normal. But the thing I can say, without talking for the future management, the future board or the future shareholders, is that any change to this plan could be only to create more value. So the way you have to look at it, you have a baseline which is published, which is known, on which the shareholders made their decision, okay, and after that, there is an improvement. I think that would be a welcome news for everybody. Regarding the governance and the representation at the board, I take this opportunity to mention that, yesterday, the board, we published it this morning, has coopted 3 new board members. And you know Colette Lewiner is replacing Hilde Myrberg, Philippe Salle replacing Loren Carroll, and Mario Ruscev replacing myself at the board. So these 3 new board members are onboard. They have been coopted. And we also indicate that Philippe Salle -- we have also indicated, to be very precise, the intention of the board to nominate Philippe Salle as Chairman of the Board, replacing Remi Dorval whose term of office will expire at the end of the next general meeting -- Annual General Meeting, which is scheduled for April 26. And that such nomination will take place at the board following the general meeting, subject, of course, to the ratification of Philippe Salle cooptation by the general meeting. So you have already an indication of the new governance of the board. And regarding myself, to be clear, the fact that I resigned from the board to allow the cooptation of Mario Ruscev doesn't change anything for my mandate as a CEO, for the time being. And as we said back in December, I'm staying as a CEO up to the point where my replacement will be appointed. The chase for my replacement is ongoing. That started early -- late last year, sorry, early this year. And as soon as my replacement is nominated, is known, I will step down as the CEO and I will stay in the company up to the end of September, beginning of October, to ensure a smooth transition.

Operator

We will take our next question from Synnøve Gjønnes from Pareto.

Synnøve Gjønnes - *Pareto Securities, Research Division - Analyst*

The first one is actually related to GGR. You're obviously undertaking some larger multi-client surveys, both in Brazil and Mozambique. It seems like you're also having some plans in Australia, but could you elaborate a bit on the client interest you're seeing in the U.S., Gulf of Mexico, particularly after 2 recent deepwater discoveries there? And the second one is actually just on the business plan and a comment you made on being back in black in terms of cash flow in 2019. Is that based on the guidance that you have provided in the updated business plan?

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

Yes, okay. So first, on GGR and the multi-client, you're right to say that we are currently shooting 2 big multi-client survey in Brazil and in Mozambique, where we see quite a lot of interest from clients. I take this opportunity to mention that Brazil has been a fantastic play for us in 2017. And we believe it will still be the case in 2018, 2019, as we have very good data, fresh data, fully reprocessed right on the blocks, which are going to be put for rotation for the -- for auction. So the interest for Brazil has been strong and we believe will continue to be strong. And it's a good demonstration of the catalyst for the multi-client sales that lease rounds predictability and change in the government policy with the Brazilian opening up the blocks to foreign companies could make to the multi-client business. It's a very good example where it works well. So Brazil, Mozambique, it's an opening up of the country, and we believe that this could attract as well some interesting investment. Now to your question on the USGOM, clearly, U.S. has been a bit slow in '16, '17, but it's also gaining momentum. And the fact that some very interesting discoveries have been made is not a surprise for us because we believe that the prospectively of the USGOM is strong. And as you know, it's the same in Brazil. When we have discoveries into this pre-salt or sub-salt areas, we are talking about big discoveries, okay? And so the interest of the client is actually quite strong at the time being. And we should see the USGOM interest renewed in 2018 for the multi-client. I like also to mention the success in the USGOM, but on the Mexican side, particularly on the northern part where we've seen also quite a lot of interest on our reprocessed data on the Encontrado Perdido area. Okay, now to your question on the 2019 and back in black in 2019. Yes, it is fully linked to the business plan that we are showing, and this is basically totally linked to the volume increase. When we have the volume increase, we have also an increase in EBITDA. And I will let Stephane-Paul develop a little bit the incremental margin we can get when we have volume increase. That will help you to understand the model.

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

Yes, exactly. Thanks, Jean-Georges. When you look at our financial outlook, we are showing one thing which is quite clear, which is, first, that, looking at our business portfolio, we are, long story short, addressing fixed CapEx -- additional CapEx in multi-client. We have where on certain region which is when you add everything $450 million. When you look at what we discussed in terms of guidance for the CapEx looking forward beyond 2018, it would be slightly lower. But that's the idea, $450 million. And what we're seeing is when the revenue increase, which will be made mostly from GGR and Sercel increase because we have a vision where data -- Contractual Data Acquisition will remain quite flat, stable, plus just -- positive back to breakeven, but not -- the value will come mostly from GGR and Sercel. And what we're seeing is as the incremental margin is above 50%, given the way this increase is made, meaning from both those 2 segments, when the revenue will be above, say, $1.6 billion -- $1.6 billion plus, then that would be the level, for us, for the group, to be back to black again. And you are seeing that when you look at the evolution of the EBITDA margin. What we are seeing is around $1.5 billion level of revenue, the EBITDA margin is within the range 35% to 40% at unchanged accounting parties. And with revenue at around $2 billion, then the EBITDA margin is more in the range 37.5%, 42.5%. So that evolution is still due to the fact that the incremental margin is above 50%.

Synnøve Gjønnes - *Pareto Securities, Research Division - Analyst*

On -- just a follow-up on the revenue.

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

Sorry, and all of this facing also cash cost of debt that are quite stable in that -- around [80, 85 or 90].

Synnøve Gjønnes - *Pareto Securities, Research Division - Analyst*

Yes. Just in terms of the revenue growth here, for GGR, you're guiding, obviously, not multi-client CapEx coming up at that much. Should we expect it to be in combination of an increase in late sales or aftermarket sales and pre-commitments or a higher pre-commitment ratio? And in the Equipment, do you expect the largest delta to be within Marine or for Land?

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

No, your first question on multi-client, you're absolutely correct. Since we are showing a level -- a stabilized level of investment with a level of prefunding, which is above 70%, we anticipate the growth is not coming from the OE. The growth will be coming from the aftersales, okay? And particularly, on -- the Gulf of Mexico is one of the big driver for that, okay? Regarding Sercel, for '18, it's mainly coming from Land, '18/'19. However, as you know, the question on replacement of the 3 mills is still on the table because the whole industry is operating the streamer probably to the limit of the ability of the streamers. So the replacement of the streamer is also in the background and will probably play at one point. But the current growth of Sercel in our business plan baseline is mainly coming from Land.

Operator

We will now take our next question from Baptiste Lebacq from Natixis.

Baptiste Lebacq - *Natixis S.A., Research Division - Analyst*

A couple of question. The first one is regarding data acquisition. You mentioned that in Q4, you suffered from negative weather condition. Maybe can you give us an update regarding the beginning of the year? Is it better for you or not? A second question regarding CapEx. Next year, you would have an increase of CapEx, industrial CapEx. Maybe can you give us an update regarding where will we focus this CapEx? Is it for new streamers or not? And last question, more regarding the environment. WesternGeco decided to leave the data acquisition business. The announcement was made a couple of weeks ago. At this stage, do you see some better situation in terms of bidding activity or not?

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

Okay. Thank you for that. So first of all, yes, on the weather conditions, we had to go on weather standby on one of the surveys in the North Sea in Q4. So that hampered a bit the Q4 result from data acquisition. But I mean, these things happen. It's not a major event, but it's, of course, impacting the bottom line. On the beginning of the year, I'll give you a little bit more detail on the dynamic of the year on data acquisition in Marine. Although it is not major for us, but nevertheless, it is important to note that we see the first part of the year, H1, to be totally driven by the prices condition that we had late last year. Because, basically, for us, at least, we are executing, at the time being, 2 large contracts, which were signed back in November last year in conditions, pricing condition which were prevailing at that time. So this is really a direct impact, if you want, of the market condition from late last year. So H1 will be suffering from the low pricing conditions. And as we indicated, we will have 45% or 50% of the fleet allocated to contracts. H2 will be better for 2 reasons: first, because the dynamic is a little bit different, and I will come back to your question on WesternGeco. So we are clearly trying to push the price up at the time being, let's be very clear, for the second part of the year. But also, to the fact that the second part of the year for us will be more multi-client weighted than the first part of the year. So all combined, in data acquisition Marine, we should see an H2 better than H1. Your question on CapEx. Clearly, in the last 2 years, like all the other players, we have been selling very close to the wind in terms of industrial CapEx. The cash was absolutely essential for the company. And so we are probably -- we have been probably under-investing in CapEx in the last 2 years. And what we have -- what we are proposing today in terms of future CapEx is closer to the maintenance CapEx level that we need to operate our operations properly. Now, of course, it's plus or minus a few percent, but the normative number that we are showing today -- sorry, the number we are showing today is more than normative number to take forward rather than the one we had in the past. On WesternGeco announcement, this is clearly a very important announcement in the market. And I would like to offer the following comment. First of all, we are not surprised. We're not surprised because we totally share the analysis that WesternGeco has made. And not only we share it, but it's exactly the analysis we made 3 years ago when we decided to go down from 23 vessels to 5 vessels. So we're not surprised, totally in full agreement, okay. The difference between the 2 of us is that they had the financial strength and probably a different view of the market to totally go to 0 vessels, where, on our side, we stopped at 5 because we have limited financial capability, but also because we believe that these 5 vessels are important to maintain the level we want in terms of technology and in terms of technology and expertise and data quality that we need for our multi-client. But I mean, if we leave that aside for 1 second, we totally share the analysis, and so we understand the movement they made. Will that -- are we going to see a direct impact on the market? I believe, on the short term, yes. This can help a little bit the pricing dynamic in the second part of the year because WesternGeco has indicated that they will not take all their contracts than the one that they're executing, okay? Is it going to be a structural factor to change the dynamic in prices? I would be more reserved because these reserves will not disappear, okay? They will be temporarily, if you want, naturalized. And this could change, temporary, the dynamic of the market, which could be good. But at the end of the day, we shouldn't rely on that to say that the market dynamic in pricing will change because these vessels will not disappear. What I can tell you is that there is a level of, let's say, client nervousness, perhaps it's too strong, but at least questioning about how this will totally rebalance. Because even though the market is low and complex and with very low pricing, clients are getting concerned that they may not get the vessel they want at the right time. This is what I would like to say.

Operator

We will now take our next question from Julien Raffelsbauer from Cantor.

Julien Raffelsbauer

Just following up on the WesternGeco withdrawal of the acquisition. What will be the impact on the equipment business, you think? Because I was at the impression that the Equipment was well regarded but expensive. But do you think they will try to sell their equipment to third parties or creating a new competitor for Sercel? Or do you think they will just close that division as well?

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

Yes, well, that's encouraging to us, WesternGeco, what they want to do. But what I can tell you is that there is no news on this part because WesternGeco indicated already 3 years ago that they were opening their equipment for sale to any third parties. So the fact that 2 Marine or 2 Land is on the market against, potentially, Sercel is not new. The fact is that, since they decided to offer this equipment to the rest of the market, they have not been very successful. As far as I know, they sold one set of marine streamer and some land equipment in Russia, and that's it. So this is not going to bring a massive disruption in the market, not at all. And you're right to say that their equipment is probably sophisticated, but quite expensive.

Julien Raffelsbauer

So could it be the opposite then, that the fleet that WesternGeco will sell will buy streamers from offer different from WesternGeco and from you?

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

Yes. But -- I didn't want to go as far as that, but it's clearly potentially an opportunity for us rather than a threat because I don't know what will be the faith for this equipment, are they going to be maintained on the long run? Clearly, if we take the hypothesis that this equipment will be discontinued at one point, obviously, the current WesternGeco equipped with Schlumberger equipment will have to be equipped with another party equipment. And obviously, Sercel will be very keen to be this one. But we have not factored that in our plan, to be clear.

Operator

We will now take our next question from Jean-François from ODDO.

Jean-Francois Granjon - *ODDO BHF Corporate & Markets, Research Division - Analyst*

Jean-François Granjon from ODDO. Maybe just 2 questions, please. The first one, could you comment the strong decrease or drop for the depreciation and amortization last year in 2017 compared to the previous year? And what do you expect for the amortization and depreciation for next year or this year, 2018? And we saw that the strong decrease expense -- the strong recovery for the EBIT level compared to the EBITDA. And the second question is regarding the impairment expected for the earnings in 2018 with the improvement for the EBITDA margin. Can you explain, how can we explain that? Do you see lots of cost-cutting plan impact? Or do you expect some improvement for the Sercel earnings with a breakeven under strong reduction or not from the losses coming from the Data Acquisition?

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

You take the depreciation?

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

On the depreciation, Jean-François, as you well know, we don't provide any guidance. But I can just remind a few trick here. First, looking at all what is not multi-client, given our level of investment CapEx, not that far from the CapEx level, obviously. And second, on the multi-client side, I remind you that, while you have the level of multi-client amortization, I remind you that our policy is to have 80% depreciation on the sales that are related to data with the value on the balance sheet because of ending book value. And obviously, when the level of multi-client amortization is lower than 80%, that just means that we are making sales related to the pre-depreciated library. So you have to take an assumption looking in the mix of sale between sales related to fresh data and sales related to fully depreciated data.

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

Regarding the impact on Sercel, what I can tell you, Jean-François, is that during this process of restructuring and as we indicated to the market already in the past, we have massively reduced the breakeven point in Sercel. Actually, you can almost calculate it perfectly since you saw that in the last quarter, we have $160 million revenue. We are making an 8% margin. So that gives you another point of the curve. And you will see that the breakeven point is somewhere around $320 million, $340 million, okay? So I said in the past and I restate it that the Sercel growth, the Sercel story is a growth story. We maintained our market share. We maintained the technology lead. So the day you put more volume in Sercel, the rate of transformation to top line to bottom line is just very high because you don't need -- you will be at marginal cost, basically. You don't need to have much more cost in order to produce the next $100 million, $200 million of revenue, so it's a good cash transformation. The only thing that you need to take in mind, of course, that you will need some working cap to insure the machine and to start again the growth.

Operator

We will now take our next question from (inaudible) Santos from Goldman Sachs.

Unidentified Analyst

Just a couple questions on your new debt, if you don't mind. You mentioned in your slides that the first lien is callable for free until May. I just wondered what your intentions were on refinancing that instrument. And then my second question is you also mentioned in the slides, if I understand them correctly, that you will have the capacity to do $200 million more of first-lien debt. I'm just wondering what your intentions were on that as well.

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

Okay. Okay, on the second question, the philosophy here of this additional $200 million negotiated with all the parties was to finance our future growth, so it's not a topic for today. But we wanted to have, as we will move -- plan to move from $1.5 billion to $2 billion, there will be, obviously, working capital requirements and so on. And so we wanted -- we negotiated that -- the ability to have additional...

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

Flexibility.

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

Flexibility on that matter. It was really to -- the proposal was to share that security by cash. And maybe also, 1 day, to have, among our creditors, to level down the level of our cost of debt also for preparing the realty of banks as creditors. So that's for your second question. On your first question, which is our intent looking at potential refi of the first lien. That's the outcome of the financial restructuring. We have this free window. Obviously, we'll work on it. We'll look at the trading levels. You show maybe that we were rated yesterday or Wednesday, I guess, by S&P, B- corporate and B for the secured debt instrument. The question could be is it the right price, LIBOR plus 6.5% plus 2% PIK. Is it a right price for a B-rated debt instrument? Maybe we could find this quite high. So clearly, we like to see if we can save money here, clearly, for the company.

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

Yes, it's one of our priority action now.

Operator

As we have no further questions in the queue, that will end today's Q&A session. I would like to hand the call back for any additional or closing remarks.

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

Okay, thank you very much, operator, and thank you all for attending the meeting this morning, and feel free to call us back if you need more information. Have a good day. Bye-bye. Bye.

Operator

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