Q3 2022 Financial Results

Wednesday, 2nd November 2022

Introduction

Christophe Barnini

Head, Group Communications & Investor Relations, CGG

Opening

Good morning, ladies and gentlemen, and good afternoon. Welcome to this presentation of CGG's Third Quarter 2022 Results. The call today is hosted from Paris, where Mrs Sophie Zurquiyah, our Chief Executive Officer, and Mr Yuri Baidoukov, our Group CFO will provide an overview of the quarter results as well as provide comments on our outlook.

Let me remind you that some of the information contains forward-looking statements subject to risks and uncertainties.

Following the overview of the quarter, we will be pleased to take your questions. And now, I will turn the call over to Sophie.

Q3 & 9 Months 2022 Overview

Sophie Zurquiyah

Chief Executive Officer, CGG

Q3 & 9 Months 2022 Macro Environment and General Overview

Thank you, Christophe and good morning and good afternoon, ladies and gentlemen. And thank you for participating in this Q3 2022 conference call.

So, let me start with a few comments on the macro environment. With the combination of continued underinvestment in exploration and production, strengthening of global energy demand and the heightened level of geopolitical uncertainty that has emphasised the importance of energy security, we are seeing positive market signals worldwide and are increasingly confident that our industry is entering a favourable multiyear upcycle.

As always, when entering [inaudible], all markets do not react at the same speed. And today's unique macro environment has created an unusually high degree of volatility across our client base and across the regions where we operate.

In 2022, the North American market was strong, while Latin America, Europe and Asia lagged. The Middle East began ramping up but multiple seismic projects were delayed to 2023.

We also saw similar variance across our client base. Independent and private companies reacted first with a progressive increase in their exploration activity while NOCs maintained their activity level.

In contrast, IUCs continued to focus on shorter term shareholder returns, energy transition, product levels and infrastructure-led exploration.

Overall, this shaped 2022 into a year of transition for CGG as we began to see the strengthening commercial activity around our core businesses and established our Beyond the Core technology and growth businesses with some key pilots and commercial successes.

The underlying fundamentals are clearer and I'm increasingly confident in our path forward. Energy transition will be a long process with demand for energy and the requirement for energy security both increasing. With this, the responsible exploration, development and production of oil and gas must play a key role going forward. We see this in action as governments globally move forward with further developing their resources, including UK, North Sea, Norway, the US Gulf of Mexico and Brazil.

Offshore activity is picking up again worldwide. Middle East onshore is growing and Asia Pacific is starting to recover.

The underlying industry fundamentals are favourable to CGG despite the business variability and volatility that we saw from our clients in 2022 as they took different paths to address market conditions.

Demand for our technologies and especially our subsurface imaging is becoming increasingly more important for energy companies to effectively optimise their investment, not only for traditional oil and gas prospects but also for energy transition, including CCUS.

Our core basins of the US Gulf of Mexico, Brazil, UK, Norway and US Land remain the priority for a majority of E&P companies and will receive a big share of the budget increases.

Acquisition contract prices, particularly in marine, are going up, which should strengthen acquisition companies and allow them to renew their equipment. There is more visibility on long-term land contracts in North Africa, Middle East and Asia, supported by NOCs that will require new land equipment.

Order intake for geoscience was up 37% year-on-year and SMO order intake was down 6% but the level commercial bids is at a historically high level going back to 2016.

So, despite this high level of commercial interest and activity going forward, Q3 2022 was soft, mainly as our earth data and sensing and monitoring businesses saw several contracts and projects shift from Q3 to Q4 and to 2023.

Our group 2022 top line is expected to remain flat year-on-year, with 18% growth in DDE offset by lower revenue in SMO. But our 2022 EBITDA should increase pro forma year-on-year by around 15% with a higher margin, which is now expected to be around 42%. More importantly, 2022 free EBITDA is expected to be broadly in line with original guidance.

As the market, industry and CGG have progressed to this year of transition, I have become increasingly confident that we're entering a multiyear upcycle and that CGG will benefit from the increased activity as we move forward.

So, we'll move now on Slide 5.

Q3 & 9 Months 2022 Key Segment Financial Highlights

After this general overview, let's review the third quarter in more detail.

So, in Q3, CGG saw volatility result in lower financial performance. Segment revenue was $217 million. Segment EBITDA was $77 million, a 35% margin. Q3 segment revenue was lower than anticipated as some EDA pre-funding revenue and SMO projects slipped to Q4 and into 2023. Q3 net cash flow before $19 million M&A cash cost was minus $59 million including $40 million negative change in working capital.

At the end of September, net cash flow was minus $65 million, including $37 million M&A. In 2022, our CapEx spend [inaudible]. We have already invested 90% of our EDA CapEx at the end of September.

We also significantly increased the inventory of SMO products, consuming an additional $17 million cash since the beginning of the year to be ready for the large upcoming tenders for land and OBN equipment that are expected to be delivered in 2023.

So, moving on to Slide 7.

Data, Digital and Energy Transition (ex-GGR) Key Financial Indicators

Q3 DDE segment revenue was lower this quarter at $131 million, down 16% pro forma year-on-year with growth in geoscience offset by a decrease in earth data due to lower pre-funding.

At the end of September, our core businesses continued to gradually recover as markets strengthened. Year-to-date DDE revenue climbed 30% pro forma year-on-year.

As a result, DDE profitability for the first nine months is up significantly with a solid 58% EBITDA margin and a 29% operating income margin driven mainly by strong recovery in multi-client after sale.

Slide 8 with geoscience.

Geoscience Key Business Indicators

Geoscience external revenue was $69 million in Q3, up 8% pro forma, and year-to-date revenue was 214 million, up 19% pro forma compared to last year.

We continue to anticipate high single-digit growth for geoscience in 2022 and in line with our expectations. Overall, the geoscience KPIs are progressing as expected in the increasingly solid market worldwide with high demand for our technology.

We also see the full effect of efficiency gains in our revenue per head metric.

Slide 9.

Geoscience Q3 Operational Highlights

Commercial activity is increasing worldwide. Total geoscience dollar order intake was up 37% pro forma year-on-year during the period of January to September 2022.

While activity initially picked up in North America in the second half of last year, we now see increasing commercial activity in Europe, Middle East and Asia. In addition, Europe demand is also driven by our Beyond the Core businesses, including our data hub technology and earth data for CCUS projects.

The picture on this slide is a horizontal depth slice through the subsurface. It shows ancient buried river systems with greater precision than the industry has ever seen before. CGG's advanced full waveform inversion technology can resolve not only the larger river channels but also the much smaller tributaries and streams that fed these rivers.

Of course, these old rivers and streams are now filled with rock, which can sometimes be a hazard for drilling or an excellent target for hydrocarbons. Being able to see them this clearly brings significant benefit to our clients.

Now on Slide 10.

Unique Elastic FWI Technology Leveraging CGG HPC

The success of CGG is built on technology differentiation. Our unique elastic full waveform inversion, which was developed by our scientists for complex geology and challenging reservoir development is the most recent example of this differentiation and the commercial success it drives.

Full waveform inversion imaging not only gives improved resolution of shallow heterogeneity but it also increases certainty with respect to their true locations in the subsurface. These finer details enable our clients to do less drilling and optimally position their wells.

On this picture, it is important to note that the results between the left and the right side are coming from the exact same data set recorded years ago. Initially developed to solve critical Gulf of Mexico challenges, elastic full waveform inversion is now applied outside North America.

As an example, this picture is from offshore Brazil where, as you know, pre-salt geology is complex and the application of the most advanced technology can bring significant value.

Looking forward, with recent advancement in elastic full waveform inversion, it may be possible soon to quantitatively provide further rock property information directly to our clients, reducing timeframes and increasing the accuracy of interpretations.

Moving on to Slide 11.

CGG HPC and Cloud Services

Our highly specialised and therefore, highly cost performance HPC capacity has been a key enabler for the continued release of our technologies. Often this technology advance and differentiation requires orders of magnitude, more compute power and hence a unique and specialised solution.

Today, we operate three main data centres in Houston, London and Singapore that are interconnected and form our CGG cloud. We continue upgrading CC capabilities to mainly serve our geoscience activities but also to ensure our CGG cloud can be leveraged by our clients as we continue to build our Beyond the Core businesses.

At current, we're constructing a new HPC hub in Southeast England. It is progressing as planned and expected to be operational in the third quarter of 2023.

The building of this new data centre in the UK also gives us the opportunity to use 100% green renewable energy, improving our electricity power usage efficiency ratio and contributing to our greenhouse gas emissions reduction.

Our company's high end technology business profile, along with our low carbon intensity footprint and our continued reduction have been recognised by ESG rating agencies. Only two oil field service companies, including CGG, have achieved a double A rating with MSCI. With an index of 17.9, CGG is also ranked number two by Sustainalytics among 113 energy service companies. And finally, Gaia Research recently further improved the rating of CGG from 54 last year to 65 in 2022. We're proud of our ESG leadership and achievements to date and are committed to reach our goal.

So, we'll move now to Slide 11, with earth data.

Earth Data (Multi-Client) Key Business Indicators

In Q3, as in Q2, we had a total of three vessels acquiring data on our programme. Two vessels were working in the Norwegian North Sea and one vessel was working offshore Brazil. Pre-funding revenue was low at $19 million as some pre-funding of our North Sea multi-client programmes shifted to Q4.

For the full year, we expect the pre-funding level to be in the range of 60-70%, lower than usual, but we're confident that we'll catch up in 2023.

Earth data after sales were $43 million this quarter, up 32% year-on-year, sustained by sales in South America, US Gulf of Mexico and the North Sea. This is consistent with the overall trend during the year with our year-to-date after sales increasing by 2.3 times versus 2021. Historically, after sales has been a good trend indicator for the business.

Moving on to slide 13.

Earth Data Market and Operational Highlights

Most of our CapEx goes towards our core basins. In 2022, 90% of our annual CapEx was already spent at the end of September compared to 78% last year.

The acquisition phase of our Antares project offshore Brazil will be completed by the end of November. And the acquisition of our 2022 North Viking Graben East-West plus nodes programme offshore Norway is also completed. In addition, we made a modest investment in Suriname through a consortium to a position in an emerging basin.

The image on this slide shows the large footprint of our North Viking Graben programme and the perimeter of our hybrid streamer node acquisition programme. By adding nodes to streamer acquisition, we're able to build a much better velocity model in a much more cost-effective way.

Interest remains high in the APA round which supports our investment in Norway.

The US government has restarted lease sales in the US Gulf of Mexico, which is very positive news for our industry.

Now, on slide 14.

Building a Comprehensive Database for CCUS in GOM

I mentioned during our Q2 conference call that we continue to expand our data offering to address energy transition, especially for CCUS and mining.

On this slide, you can see a map of our CCUS Gulf of Mexico programme, which has industry funding. The study includes natural CO_2 sources, well locations and well lots. All data are from the public domain.

A CGG team of experts have applied machine learning and deep domain expertise to clean, process, interpret and integrate the various data types to help our clients accelerate their understanding of the CO2 storage potential in this area.

Moving on to Slide 15 now with sensing and monitoring.

Sensing & Monitoring (SMO) Key Financial Indicators

Our sensing and monitoring segment review was $86 million, down 15% year-on-year. Thanks to a favourable product mix, EBITDA was at $15 million with a 17% margin, the same margin as Q3 2021 despite lower revenue.

We anticipate Q4 2022 sales to be similar to Q3 as several orders and client projects, either in backlog or in negotiation, have slipped to 2023, including the Saudi mega-crew.

During 2022, SMO manufacturing activity has been quite high, building a large inventory of land and OBN equipment in advance of the large land and OBN tenders planned for delivery in 2023 in the Middle East and North Africa.

In 2023, SMO activity is anticipated to increase significantly on the back of orders in backlog, contributions from recently acquired companies and large upcoming Middle East projects.

Now on slide 16.

Sensing & Monitoring Q3 Operational Highlights

During the quarter, land equipment sales represented 58 of total sales. We delivered land WiNG nodes and over 100,000 508XT channels. Marine equipment sales represented 28% of total sales driven by deliveries of GPR300 OBN nodes. Sales from Beyond the Core businesses in SMO were $6 million, sustained mainly by the defence sector.

Also during the quarter, we finalised the acquisition of the software division of ION Geophysical for a total price of $19 million.

After the acquisition of Geocomp at the beginning of June, which is the beachhead to our diversification into the high-growth US market for infrastructure monitoring, the acquisition of ION software also brings diversification opportunities thanks notably to the Marlin simultaneous marine operations and management software.

Now on slide 17.

Structural Health Monitoring: Successful Bridge Test in Texas

Infrastructure monitoring is the largest opportunity for the Beyond the Core diversification strategy of SMO. It is a $2 billion market which is expected to be growing at a CAGR of 14% for the next five years.

The aim is to leverage SMO’s high-definition wireless sensors and data aggregation and processing expertise to deliver full solutions for the monitoring of large infrastructures.

Recently, SMO performed a very successful test of a cable-stayed bridge in the US that was instrumented with S-lynks sensors and system. As a result, the Sercel S-lynks system was technically validated by the client, which will open doors for future sales.

I will now give the floor to Yuri for more financial highlights.

Financial Review

Yuri Baidoukov

Chief Financial Officer, CGG

Thank you, Sophie. Good afternoon, ladies and gentlemen, and good morning. I will comment the Q3 2022 financial results.

Slide 19, Q3 2022 income statement; let me comment the overall Q3 activity.

Income Statement

Segment revenue was $217 million, down 20% and down 16% pro forma year-on-year. The respective contributions from the groups, the businesses were 32% from geoscience, 28% from earth data, 60% for the DDE segment and 40% from sensing and monitoring.

Segment EBITDA was $77 million, down 35% year-on-year, a 35% margin due to unfavourable business mix. And adjusted segment EBITDA was $75 million.

Data, digital and energy transition segment EBITDA was $64 million, a 49% margin and adjusted segment EBITDA was $66 million, a high 50% margin.

SMO segment EBITDA was $18 million, a 21% margin and adjusted segment EBITDA was $15 million, a 17% margin.

Segment operating income was $25 million, a 12% margin, and adjusted segment operating income was $24 million. IFRS 15 adjustment at operating income level was $2 million and IFRS operating income after IFRS 15 adjustment was $28 million.

Cost of financial debt was $24 million, taxes were $4 million and net loss from continuing operations was $1 million and group net loss this quarter was $2 million compared with a net loss of 16 million a year ago.

After minority interest, group net income attributable to CGG shareholders was $2million/€1 million.

Simplified cash flow on Slide 20

Simplified Cash Flow

Segment operating cash flow was $77 million before $40 million in negative in working capital and provisions mainly related to the SMO business.

Total CapEx was $82 million with industrial CapEx at $6 million, research and development CapEx at $4 million and earth data cash CapEx at $72 million.

Segment free cash flow was negative $45 million before $19 million of acquisition cash cost, mainly related to the acquisition of ION Software business.

After $16 million of M&A costs, $11 million of lease repayments, $1 million positive free cash flow from discontinued operations and $7 million negative cash flow related to CGG 2021 plan cash cost, the net cash flow was $78 million negative, excluding M&A cash cost and change in working capital, which was negative $22 million.

Slide 21, group balance sheet and capital structure.

Balance Sheet

Group liquidity amounted to $325 million at the end of September 2022 and included cash liquidity of $225 million and $100 million of undrawn RCF.

Group gross debt before IFRS 16 was $1.11 billion and net debt was $889 million. And group gross debt after IFRS 16 was $1.2 billion and net debt was $976 million.

Our debt structure has $1.07 billion of high-yield bonds due in 2027, $87 million of lease liabilities, $41 million accrued interests and $3 million bank loans.

Segment leverage ratio or net debt to adjusted segment EBITDA was 2.5 times at the end of September 2022. Capital employed was $2 billion, slightly up from the end of December 2021. Net working capital after IFRS 16 was $212 million, down from $229 million at the end of September 2021, primarily driven by a significant reduction in net accounts receivable, a lower deferred revenue liability from IFRS 15, the increase in accounts payable and reduction personnel liabilities partially offset by a significant increase in inventories in SMO. Good will was stable at $1.1 billion corresponding to 55% total capital employed.

Multi-client library net book value after IFRS 15 was up at $449 million, including $421 million of marine and $28 million of land net book value. Non-current assets were $321 million with property, plant and equipment at $149 million, down $65 million from yearend 2021, mainly due to the Galileo sale and leaseback. And the capitalised development costs were at $87 million. Non-current liabilities were at $19 million, down $14 million from yearend 2021. Shareholders' equity was up at $1.030 billion including $37 million of minority interest mainly related to [inaudible] JV.

Now, I hand the floor back to Sophie for conclusions.

Outlook

Sophie Zurquiyah

Chief Executive Officer, CGG

Thank you, Yuri. Now, we're on Slide 23.

2022 Financial Objectives Update

The shift of client projects into 2023 materialised quite recently and had a heavy impact on 2022 SMO goals resulting in our CGG 2022 segment revenue now expected to be stable pro forma year-on-year. With the general market progressively strengthening, SMO was not able to compensate for the revenue lost in Russia, as expected, as several Q4 projects slipped into 2023.

The impact on EBITDA and cash for 2022 are minimal. Our 2022 segment EBITDA is anticipated to be around $380 million with a higher 42% margin. More importantly, our free EBITDA is expected to be very close to our March guidance thanks to lower CapEx.

Overall, in 2022, we anticipate the DDE segment to be in line with our expectations with the continued growth performance of geoscience and EDA's high after sales offsetting lower prefunding.

The SMO segment would deliver below expectation due to multiple project shifts and is now expecting significant growth in 2023.

Moving on to Slide 24.

Industry is entering a Favourable Multi-Year Upcycle

Advantageous to CGG as a Technology Market Leader

This graph shows the expected E&P CapEx and oil price evolution between 2022 and 2025 based on surveys from different brokers. All brokers are pointing towards a continued high oil price during the next three years and a double-digit increase in E&P spending. Increased investment in exploration is needed to address the shortfall in supply following years of underinvestment intensified by geopolitical uncertainties and increased focus on energy security.

Current activity is increasing but it’s still heavily driven by short-cycle exploration and production with IOCs, remaining very disciplined in their investment while independents and NOCs are making more aggressive plans to go in production.

Energy transition continues to progress and will be a long process during which all sources of energy will be required. Short-cycle projects and unconventionals are not sufficient to meet demand and new resources will progressively need to be discovered.

With this consideration and the practicality that it will take time to bring meaningful new oil and gas supply to the market, we anticipate entering into a favourable multi-year upcycle as we move forward.

Conclusion

So, in conclusion on Slide 25, today, after years of underinvestment and lack of supply of oil and gas, we believe that exploration, particularly offshore exploration, will be required to fill the gap. 2022 has been a year of transition for our market and a year of investment for CGG. In 2022, CGG continued to invest in people, data and technology, both in our core domains and in our new businesses.

We also maintained a high level of R&D efforts and made significant progress in achieving our ESG objectives. And importantly, we achieved this with minimal impact on EBITDA and cash and expect a higher EBITDA margin in 2022 than 2021.

We also accelerated the development of our new Beyond the Core businesses including a new organisation to address the HPC and cloud solutions market. In 2022, we bought for a total of $37 million two new technology companies, Geocomp and ION Software, which enhance our diversification portfolio and will accelerate access to new and growing markets.

Looking forward, we’re entering a favourable multi-year upcycle with a leading and diverse technology position that will support growth in our Core and Beyond the Core businesses with key objectives to grow and deleverage our balance sheet. Thank you for your interest and we’re now ready to take your questions.

Q&A

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press start one, one on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A roster. This will take a few moments. Now, we're going to take our first question. Please stand by. And the first question comes from the line of Jean-Luc Romain from CIC. Your line is open. Please ask your question.

Jean-Luc Romain (CM CIC Securities): Good evening. Thank you for taking my questions. I have two. First, you mentioned some delays and projects pushed to 2023 in Brazil, I guess, due to the president election. How big were the projects where you could say, more or less, that slipped from 2022 to 2024? That's my first question.

The second is CCUS. Would it be fair to mention that companies such as Taylor Energy or Oxy are among the companies interested in your data in the Gulf of Mexico?

Sophie Zurquiyah: Yeah. Yeah, thank you, Jean-Luc, and good evening. Thanks for the question. So, the delays are actually – in multiple areas. Some of them are actually in the pre-funding of our multi-client projects and that's where Brazil comes into play. And then the others are in the SMO and these are projects that were positioned into yearend that have been moved into next year. So, those are more the mega-crews, North Africa equipment sales.

So, each mega-crew, you're talking $50 to $70 million dollars of equipment each, right? So, if you have a few moving into next year, this is significant amount of equipment. And that's why we're quite confident that we'll see significant growth in SMO next year.

Now, when it comes to Brazil, it's hard to give numbers but it's mostly affecting, I mean, there have been slips, we mentioned in Norway from Q2 to Q4. So, this one, we'll get this year. But in Brazil, it's been more into next year. And the orders of magnitude will be say $30-$50 million.

Jean-Luc Romain: Thank you. And then CCUS?

Sophie Zurquiyah: Sorry, CCUS. Yes, absolutely. I mean, we're working with all of our clients. And as you know, Oxy is definitely in the leading position on CCUS but it's more than just Oxy and Taylor. Pretty much our usual client base is interested in CCUS opportunities and the area that shallow water or onshore Gulf of Mexico area is a hotspot. And we do have some old data there and that's where we did our projects.

Jean-Luc Romain: Thank you.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one and one on your telephone keypads. We're having a next question come through. Please stand by. And the next question comes from the line of Daniel Thomson from Exane BNP Paribas. Your line is open. Please ask your question.

Daniel Thomson (Exane BNP Paribas): Good afternoon, Sophie. I was wondering if you could just talk to us a little bit about Q4 late sales, just what to expect, whether to expect a sort of the typical kind of budget flush that we've seen in previous years?

And then maybe a second one, just if you can talk a bit about the implications of the new – the lease sale going ahead in US Gulf of Mexico and sort of the timing of when you expect to see the benefit of CGG. Is some of it coming into Q4 or is it mostly 2023 and onward? Thank you.

Sophie Zurquiyah: Okay. Thank you, Daniel, and good evening. I think it's fair to say that Q4 commercial discussions are quite active and we should see an uptick in Q4. The question is how much of an uptick it will be and how much discipline the IOC will exert to their budgets. So, obviously, you've all looked at their financial performance and they do have cash to spend. We're still seeing a lot of discipline. But we're starting to see new names that haven't got a lot of data in the last few years come in and starting to say they want to reload their data. So, it makes us hopeful that we'll indeed see a, I don't know if I could call it, flush, but there will be an uptick that we'll see in our revenue for Q4.

On the lease sale in the GOM, it's been great news. But I think it's not materialising quite now into data sales. I think it would come into next year. I think they need to – maybe they're waiting a little bit for the election results and restoring a little bit of confidence into the terms and conditions. So, it's not just the lease round resumption that the clients are looking at but also the ability to get the permits because there've been roadblocks to get seismic permits, to get drilling permits. So, we need the whole machine to be resuming as well. So, I think it would take a little bit of time for that confidence to go up. I would say next year if I was going to say something, not this Q4.

Daniel Thomson: Sure. Okay. Thank you.

Operator: Thank you. Now, we're going to take our next question. Just give us a moment. And the next question comes from the line of Kevin Roger from Kepler Cheuvreaux. Your line is open. Please ask your question.

Kevin Roger (Kepler Cheuvreaux): Yes, good evening. Thanks for taking the time. I have two questions. The first one is related to the equipment, Sophie. Can you give us a bit of detail, if I missed it, the reason why the sales have been postponed because I was thinking that in the current environment that you mentioned is in one[?] kind of rush to get the equipment, things like that. So, is it related to pricing, to bottleneck, whatever? So, what are the reasons beyond this delay in equipment sale?

And the second reason, the second question, sorry, on the emerging business. You are running at 17 million per quarter. Is it basically the maximum you can achieve because you are using your people at full capacity or is there anything to expect in terms of earnings improvement in the coming quarter?

Sophie Zurquiyah: Okay. So, thank you, Kevin, and good evening. So, on the equipment, it's actually coming from a number of directions. So, it's mostly on the land side and mostly related to North Africa and Middle East, but also a bit in Asia. So, there's the big – so, what happened is when we came into the year and we realised the 50 million drop, and initially, it was 40 because we were hoping for – linked to Russia – we were hoping to ship 10 million pre-sanctions but we weren't able to do that. So, Russia, in the end, was a 50-million hit.

And it was early in Q1 and we were seeing the Saudi mega-crew positioning at yearend because the bids were supposed to come at like in April. So, we thought, okay, we won't do the Russia so we'll be able to compensate with mega-crews and activities that were starting to show in North Africa and Middle East.

But what happened as we went through the year, we started to see those bids slip and it only came out in September. And now, the bids are due – so this is the clients putting the bids for service companies to respond. And now, the response has been delayed to early November. Now, they have month then to award the work and then they have six months to mobilise.

So, now you start putting all these together. The equipment delivery will be some time in Q1, Q2 next year, so in the first half of the year. So, these are the really two when I was mentioning those mega crews. We're talking 50 to 70 million each, right, and there's two of them.

Now, in addition to that, there's the OBN, the ocean bottom node, so three crews. So, that's quite a lot of equipment. And these ones were also delayed. So, that's another big chunk of equipment. But in addition to that, you have, for example, places like Libya where, you know, we were in discussion and things got delayed in Asia. So, it's a bit of a smaller amount but that just got delayed basically because of geopolitical reasons, budgets, or clients. So, the big chunk is the Saudi bit. But there were other bits and pieces here and there, all related to land and NOCs. So, that's the equipment side.

On the imaging, this is true. We were kind of running on that 17 million. We did a big step up from H1 last year. So, if you look at the history of imaging, we were quite low in H1. Then we got a lot of order intake. We moved a step up in the second half of last year and we're kind of running at that level now. And there was a catch-up effect from our clients and that's where we are.

Now, again, that commercial activity is quite strong. And I think we could do more. I mean, I was mentioning by region where I would say North America were quite full. But we probably have/can do more work in Europe and Asia. And this is where we're starting to see a little bit of improvement in the conversations and the awards.

Can we do more and grow the revenue? I think we can but keep in mind that geoscience doesn't have the volatility, as you see, as the others and the big swings, right? So, it goes down less but goes up a bit less as well. But on a year-to-date basis, we are, I think, somewhere around 19% year-on-year because of that H1 that was really low last year. And then full year, we're planning to be in the high single digit, meaning the rate of growth is tapering up but that's linked to the catch-up effect from delayed projects that we started to see in the second half of last year.

And then moving forward, I would expect something similar like this high single-digit growth, both from activity and pricing.

Kevin Roger: Okay. Okay, understood. Thanks for that, Sophie.

Operator: Thank you. Now, we're going to take our next question. And the next question comes from the line from Guillaume Delaby from Société Générale. Your line is open. Please ask your question.

Guillaume Delaby (Société Générale): Bonsoir, Sophie. Good evening to everybody. Maybe one question or maybe one confirmation. So, we all understand that basically, there are many causes to our many delays. Just to be sure to understand your thought process accurately, could we say or could you say that if there was, I would say, one big surprise for you, Sophie, is the fact that IOCs have been, I would say, more disciplined than what you would have expected them to be at this time or at this time of the cycle? Am I correct? And is it for you, I would say, the main surprise?

Sophie Zurquiyah: Thank you. Bonsoir, Guillaume. I have to admit, I think, I would say this is the biggest surprise because, yes, IOCs are very disciplined. But if you remember in Q1 call, I was asked the question repeatedly if the situation in Ukraine would change the behaviour of our clients. And I remember saying I don't believe it would be the case because it was too far into the year, the budgets were set, strategies were set. So, I didn't think really things would change.

I would say the bigger surprise, I would certainly think that by Q4, they would be opening up a little bit more to exploration but maybe, that will be next year. The biggest surprise, I think, was the SMO. I wasn't expecting such a volatility in that business. Of course, we lost 50 million because of the events and so that was difficult to catch up. But given the dynamic, the exposure of SMO to NOCs that are really continuing the course, I would have expected less volatility on that side. So, to me, the biggest negative surprise was on SMO.

Guillaume Delaby: So, maybe a follow up on that and sorry about that but let's forget the SMO. Globally, if we just try to look at what had happened over the last, I would say, few quarters, when we listened to what you were saying, Sophie, what your peers are saying that basically there was, I would say, some kind of consensus of common wisdom that basically IOCs were about to come back? It was clear, for example, in the Q2 and Q3 calls from Schlumberger.

So, my question or my – maybe I'm going to repeat or elaborate my first question, is to what extent can we imagine that this basically is more discipline than expected pattern from IOCs could be basically extended maybe a little bit more than what could have been previously expected? So [inaudible].

Sophie Zurquiyah: Thank you, Guillaume. I think it's fair to say that the shape of the cycle and the behaviour of our clients during this cycle is quite different from previous cycle because historically, in an upcycle, you'd see the exploration start first, which isn't the case. So, the large OFS that you were mentioning are seeing the uptick and very optimistic because they're exposed to other part of the value chain that are starting first.

So, if you look at drilling, drilling wells, anything that's close to the oil, it's starting first. And then actually, it is starting to propagate into these other activities. It started with ILX, infrastructure-led exploration. And little by little, it will have to go back into more, I don't want to call it frontier but maybe new emerging basins beyond the mature basins.

So, yes, it is a different cycle and a different behaviour and we're observing it. The jury is out as to how long it will take for IOCs to come back. But we have also the NOCs that are moving international. That sort of blank or that space that's left by the IOCs will be filled by other types of players. So, you're going to have the independents, you're going to have NOCs starting to play internationally as well.

So, I do expect that if IOCs don't come back, which I think they will come back, in a disciplined fashion but they will increase their exploration budgets eventually that we'll start seeing other types of players come in.

Guillaume Delaby: Okay. Merci, Sophie.

Sophie Zurquiyah: Merci.

Operator: Thank you. Now, we're going to take our next question. Please stand by. And the next question comes from the line of Baptiste Lebacq from Oddo-BHF. Your line is open. Please ask your question.

Baptiste Lebacq (Oddo-BHF): Yes, hi. Good evening, everybody. Thanks for taking my questions. One question dedicated to CapEx and the new industrial CapEx that you disclosed at $60 million. Could you it be seen as the normalised CapEx in the future for the industrial part?

And second question dedicated to computing power, maybe linked also to the question regarding CapEx. You gave some figures regarding computing power for 2022. What figures do you have in mind over the next three- or four-years regarding computing power? Thanks a lot.

Sophie Zurquiyah: I'll let Yuri take the first question. And then I'll comment on the computing power.

Yuri Baidoukov: Yes. Good evening, Baptiste. Regarding this, the level of CapEx, we're in the processes of budgeting now, obviously, 2023, right? But I will say fundamentally or directionally, yes, this range of say 55 to 60 million will be roughly the level of industrial CapEx and capitalised development costs because, obviously, it's jammed in there. So, that is the direction how it will be shaping up.

Sophie Zurquiyah: Yes. So, bonsoir, Baptiste.

Yuri Baidoukov: Yeah. Sorry, just one more element that. When it comes to the cash element of that, so we – and we did mention that we're in the process of building this new data centre in the UK, we actually did secure risk financing for that. So, in other words, again, the cash out rate will be actually lower than this.

Sophie Zurquiyah: Yes. Bonsoir, Baptiste. I was going to make a comment that definitely, when it comes to computing power, this is an area where we can secure leases, basically of equipment. The computing power, I think, we're about 300 petaFLOPS, which is a significant amount of compute power. We haven't made completely our plans for 2023 but we'll be probably adding somewhere around, I would say, 30 to 50 petaFLOPS. I don't have the number for the next three years but if you look at ten years ago, we were probably, I want to say 50 petaFLOPS and we multiplied from 50 to 300. I wouldn't be surprised that in the next 10 years, we'd, again, grow significantly, I mean not multiply by 10 but multiply by six, seven that computing power. I'm not sure what road we will take to get there but, eventually, more and more compute power is required and we'll just follow the business, basically, whether we need it and then clients are willing to pay for that compute power as well through our services. But in the short term, probably adding 50 – 10-15%.

Baptiste Lebacq: Thank you. That's clear.

Operator: Thank you. Now, we're going to take our next question. And the next question comes from the line of Neyla Velimoukhametova from BlackRock. Your line is open. Please ask your question.

Neyla Velimoukhametova (BlackRock): Yes, hi. Good evening. Thank you very much for taking my question. I just had one. It's a follow up on CapEx. So, you talked about the industrial CapEx and I wanted to get your thoughts on the cash spend on the multi-client part of the business from next year. Obviously, this year, we have a lower pre-funding rate but you're sticking to the 200 million spend, funding it yourself, I guess, basically. And how should we think about 2023 with regards to the moved revenues or moved CapEx from '22 and in addition to the CapEx that you do – well, not CapEx but growth that you expect in '23 as per your comments of entering the multi-year upcycle stage? Thank you.

Sophie Zurquiyah: Yes. Thank you for the question. So, with the information I have today, I mean, like I mentioned earlier, we've invested significant amount of CapEx this year. I think it even increased from last year. I would expect directionally to be flat to lower. And the reason for that is that we're looking at number of projects more in collaboration. We're looking at minimising risk and risk sharing, a little bit like our clients, drilling and exploration. They don't do exploration just by themselves. They just do together with other competitors. So, this is something that I think is coming our way that in the model we'll look at more and more collaboration. And probably, yeah, lower and I would say, flat to down, it would be directionally what I'm looking for. But that's the base case.

Now, of course, if there's a great project with high pre-funding that comes our way, we would look at it on a case-by-case basis. Little bit as well like our clients are budgeting, they have their base budget and then they look at opportunities as they come. But directionally, I would say flat to down and higher prefunding because then, you would have the catch up from this year.

Neyla Velimoukhametova: Right, exactly. So, I was going to ask on the pre-funding. So, is that fair to assume it'll be closer to 100% or is it a little too punchy to assume that?

Sophie Zurquiyah: I think it's too much to assume that. Historically, I've always said that 90, 100 is not necessarily a good level or a level to shoot for because you want to have future sales, right, the long tail of sales. So, that's why we always said 70% is sort of a good number; 70-80% is a good number, which is where we always budget. We always budget around that number and we try to get more. But 100% is never sort of the base case.

Neyla Velimoukhametova: Of course, understood. Okay. Great. Thank you very much.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one, one on your telephone keypads.

Sophie Zurquiyah: Maybe I'll add a quick comment to the last question on the pre-funding ratio. We tend to look for those surveys that we call really truly multi-clients that have a potential of after sales. And those typically carry a lower pre-funding where some of our competitors in the industry are looking for maybe different like we call hybrid, that have a higher pre-funding initially but less potential for after sales, so, a bit of a difference in philosophy that you'll find in the market.

Our philosophy is to really look for those multi-clients with multiple clients, a potential for farm and open acreage and therefore, they have a bit off a lower prefunding.

And I thank you for your questions, really good questions. And I look forward to talking to some of you in the future, soon and shortly. And thank you again.

Operator: That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

[END OF TRANSCRIPT]