Subsea 7 S.A. Q2 2023 Results

Wednesday, 26th July 2023

Operator: Good day and thank you for standing by. Welcome to the presentation of Subsea7's Second Quarter 2023 Results Conference Call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be the question-and-answer session. To ask a question during the session, you need to press star, one, one on your telephone keypad. You will then hear an automatic message advising your hand is raised. To withdraw your question, please press star, one, one again. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Katherine Tonks. Please go ahead.

Introduction

Katherine Tonks

Head of IR, Subsea 7

Welcome

Welcome, everyone, and thank you for joining us. With me on the call today are John Evans, our CEO; Mark Foley, our CFO; and Stuart Fitzgerald, CEO of Seaway 7. The results press release is available to download on our website, along with the slides that we'll be using during today's call.

Disclaimer

Please note that some of the information discussed on the call today will include forward-looking statements that reflect our current views. These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast. For more information, please refer to the risk factors discussed in our Annual Report or in today's quarterly press release.

I'll now turn the call over to John.

Business Overview

John Evans

CEO, Subsea 7

Thank you, Katherine, and good afternoon, everyone. I will start with a summary of the quarter before passing over to Mark to cover the financial results in more detail.

Second quarter 2023 – strong momentum

Turning to slide three. Subsea 7 reported satisfactory results for the second quarter, including a good operational performance from Subsea and Conventional and strong results in Renewables.

Momentum in order intake continued with $2.2 billion of work booked this quarter, increasing our backlog to $10.4 billion. Tendering activities remain high and we're seeing a continued improvement in pricing. Overall, we're on track to meet adjusted EBITDA consensus for 2023 and remain confident in our longer-term expectation to return to a margin range of 15-20%.

Second quarter 2023 – projects offshore

Turning to slide four for an update on key projects in the quarter. In Senegal, Sangomar reached 84% completion as Seven Seas and Seven Sisters continued to install umbilicals and other subsea hardware. In Brazil, Seven Vega and Seven Pacific were active on the Bacalhau project. Procurement continued at Mero 3 and engineering is underway on Búzios 8.

In Saudi Arabia, Seven Borealis completed two jacket installations for the Marjan 2 project, which reached 43% completion.

And in Norway, we were very active with five vessels working on eight fields for five different clients, including the Northern Lights CCUS project.

In Renewables, cable lay activities were completed for the Seagreen project in July, and this $1.4 billion project has now been successfully concluded. We made good progress on Dogger Bank A and our other offshore wind scopes.

Order intake – continued growth

Turning to slide five. Order intake in the second quarter was $2.2 billion, including new awards of $1.5 billion and escalations of $0.7 billion. Our book-to-bill was 1.4 times.

Backlog increased to $10.4 billion

Overall, our Group backlog increased to $10.4 billion, giving us a high degree of visibility on both the remainder of this year and next year. Both business units delivered strong backlog growth.

Our Subsea order book increased 25% year-on-year to $8.7 billion, including $3.6 billion to be executed in 2024, up 29% from the equivalent position in June 2022. Our renewables order book has doubled year-on-year to $1.7 billion, of which $650 million is due to be executed in 2024.

And now I'll pass over to Mark to run through the financial results.

Financial Review

Mark Foley

CFO, Subsea 7

Introduction

Thank you, John, and good afternoon, everyone. I will begin the financial performance review with some details of Group and business unit performance in the quarter, before returning to the Group cash flow and financial guidance for 2023.

Second quarter 2023 – Group

The slide seven summarises the Group's second quarter and first-half performance in the context of the prior three years.

Revenue in the second quarter increased 22% to $1.5 billion compared to the second quarter of 2022 as we continue to execute large projects in subsea and fixed offshore wind. Adjusted EBITDA of $162 million was up 21% compared with the prior year, and the margin remained broadly flat at 10.7%. As previously communicated, the margin is expected to expand in the latter part of the year as the proportion of contracts in the portfolio, won in the cycle lows further diminishes and backlog continues to be replenished with margin accretive order intake.

Net income was $14 million after net finance costs of $8 million, and net foreign exchange gain of $59 million, driven by movements in non-cash embedded derivatives and an effective tax rate of 73%, which was elevated by 22 percentage points due to the non-tax deductibility of non-core vessel impairments.

I will now discuss the drivers for the Group's performance in the next few slides.

Second quarter 2023 – Subsea and Conventional

Slide eight presents the key metrics for Subsea and Conventional. Revenue in the second quarter was $1.2 billion, up 23% year-on-year, reflecting good progress on Sangomar, Bacalhau, and Marjan 2, as well as our other EPCI projects.

Adjusted EBITDA was $121 million with a margin of 10.3%, up 120 basis points sequentially, but down on last year due to a mix shift towards contracts won in the challenging environment of 2020 and 2021. A net operating loss of $10 million for Subsea and Conventional includes a $23 million impairment of non-core shallow water assets in Nigeria, a market we have now exited.

Second quarter 2023 – Renewables

The performance of the Renewables business unit is summarised on slide nine. Revenue in the second quarter was $309 million, up 19% year-on-year, reflecting high activity on Seagreen, Hollandse Kust Zuid, and projects in Taiwan.

Adjusted EBITDA was $34 million, resulting in an adjusted EBITDA margin of 11.1%, driven by strong operational performance across our portfolio of projects. This marks a return to double-digit margins in the new renewables business, which we believe is sustainable for the remainder of the year.

Second quarter 2023 cash flow

Slide 10 shows the cash flow waterfall for the second quarter. Net cash used in operating activities was $31 million, which included an expected build in working capital of $176 million. This build is temporary in nature and is expected to begin unwinding later this year.

Net cash used in investing activities was $201 million, mainly attributable to milestone payments for the newbuild wind vessel, Seaway Alfa Lift. As a result of this investment in the business, free cash flow in the period was negative $228 million.

Net cash used in financing activities was $60 million. This included our $112 million dividend payment, which equated to NOK4 per share, which is notably higher than the NOK1 per share regular dividend. Lease liability payments of $48 million, including principal and interest, mainly related to chartered vessels.

These financing cash outflows were offset by $111 million of net proceeds from borrowings, which included a modest drawdown on our revolving credit facility. At the end of the quarter, cash and cash equivalents was $398 million, and net debt was $805 million. This included lease liabilities of $442 million.

The Group had liquidity of approximately $1 billion at 30th June and is at an advanced stage of negotiation to secure additional core debt funding of $450 million. This funding will be a Seaway 7 facility for the use of the Renewable sector and will primarily finance Seaway Alfa Lift and Seaway Ventus vessel builds.

Group financial guidance

To conclude, slide 11 shows our guidance for the full year. We continue to expect revenue and adjusted EBITDA to be higher than 2022, while net operating income is still expected to be in line with last year.

Guidance for taxation has increased to between $70 million and $80 million, resulting from a shift in forecast profitability towards higher tax jurisdictions, the impact of withholding taxes, and tax non-deductible impairment charges. There is no change to our expectation for capital expenditure for the year.

I will now pass you back to John.

Operational Update

John Evans

CEO, Subsea 7

Dogger Bank A&B – ahead of schedule

Thank you, Mark. On slide 12, we have an update on the Dogger Bank A project, which has made good progress in Q2. To date, 71 of 95 monopiles have been installed by the Seaway Strashnov, with steady and predictable cycle times for each monopile. We're on track to complete the monopile scope in the third quarter and the transition pieces in the fourth quarter of this year.

A strong performance on Dogger Bank A will allow a commencement on Dogger Bank B, and we expect to start installing monopiles in the third quarter of this year. The remainder will be installed in 2024, as planned. Good predictable operations from Seaway Strashnov have formed the basis of a revised execution plan for the Dogger Bank A, Dogger Bank B, and Dogger Bank C projects, using the Seaway Strashnov as the monopile installation vessel throughout. This revised execution plan has been agreed with the client.

Seaway Alfa Lift – plans confirmed

On slide 13, we review the plans for our new build foundation installation vessel, Seaway Alfa Lift. The vessel has now left the yard in China and is sailing to Europe, where it should arrive towards the end of the summer. The crane and marine systems have been successfully commissioned and it will be deployed in heavy lift mode, installing transition pieces on Dogger Bank A, B, and C from late 2023 to 2025.

This revised plan has been developed with the client, and although subject to final approvals, provides confidence in our financial estimates for the project. The mission equipment for Seaway Alfa Lift remains under construction but is now removed from the critical path, allowing us to derisk our renewables backlog.

Seaway Ventus – on track

Turning to slide 14 and our other newbuild vessel, Seaway Ventus. This is a multipurpose jacket capable of both turbine and monopile installation. Construction remains on track with the jack-up legs now fully tested and the crane and the marine systems commissioning underway. The vessel is due for delivery at the end of 2023 and is scheduled to start work on turbine installation activities on Borkum Riffgrun 3 and Gode Wind 3 in 2024.

It will then be deployed for monopile installation at East Anglia 3 in 2025.

Spotlight – Azeri Central East (ACE)

Switching to our Subsea and Conventional business. On slide 15, we have a brief overview of our work for BP in the Caspian. Since 2018, we've built up our presence in Baku, servicing this landlock region, and from here, we will provide inspection, repair, and maintenance to BP under a long-term framework agreement.

In 2019, after early engagement with BP on its development plans, we were awarded contracts for the engineering and fabrication of subsea structures for the Azeri Central East project, along with transportation of a jacket and topside unit. ACE made good operational progress in the second quarter with the launch of the 16,000-tonne jacket in April and the installation of the 20,000-tonne top side unit is planned for Q3.

Spotlight – Northern Lights Carbon Capture

Our final spotlight today is on our role in the Northern Lights project, part of Longship development. Longship is a carbon capture, transport, and storage project that includes Northern Lights. This encompasses the shipping for CO_2 to an onshore terminal where it's taken by the pipeline to a storage field in North Sea. Subsea7's scope is engineering, fabrication, and installation of 108 km pipeline, taking CO_2 from shore to the North Sea field.

In the second quarter, Seven Oceans installed the first 55 km of pipeline with the remaining 53 km scheduled to be installed in the spring of 2024.

Outlook – subsea projects

Now, on to review of our tendering pipeline on slide 17 and 18. Tendering remains very active and 2023 is shaping up to be a year of strong order intake. The most active markets remain in Brazil, where there's a long list of major projects, of which we will win our fair share; and the Gulf of Mexico, which remains a very active tie-back market.

In addition, there's a good array of prospects in Africa, including Egypt, Libya, Morocco, and Angola, most of which are being tendered as integrated SURF and SPS projects. We're also working on integrated SURF and SPS tenders for Browse in Australia, Aphrodite in Cyprus, Block 58 in Suriname, and the Northern Endurance partnerships CCS development in the UK.

Overall, we are confident that we have a robust tendering pipeline that can support continued momentum in the Subsea market.

Outlook – offshore wind prospects

On the next slide, we have our wind prospects. There are a number of tenders that should be awarded to the industry in 2023 and 2024 in the US, UK, and Europe, as well as some longer-term prospects with installation windows as far out as 2029. We're also starting to see interest from our wind clients in locking up long-term capacity under multiyear awards.

We are seeing some project delays due to project economics impacting our clients and order flow in this industry remains lumpy, but we are confident that we can grow this business and generate the appropriate margins and returns.

Summary – momentum continues

To wrap up, we'll turn to our final slide on page 19. Our second quarter delivered a good operational performance in Subsea and a return to double-digit margins in Renewables, which is now back on track. We anticipate Renewables margins remaining in double digits for the remainder of this year, and we have derisked the backlog for 2024 and 2025, which should underpin an improved financial performance over the longer term.

Overall, the second quarter has reconfirmed our view of the full year of 2023, and we're on track to meet consensus expectations for adjusted EBITDA. We continue to experience high level of tendering activity with a pipeline of over $20 billion in Subsea and $5 billion in Wind, which is supporting a positive pricing dynamic. As we've noted before, we expect margins to return to a range of between 15% and 20% in the coming four years. And this, combined with a significant reduction in CAPEX from 2024, should enable the Group to generate significant free cash.

And with that, we'll be happy to take your questions.

Q&A

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one one on your telephone keypad. To withdraw your question, please press star one one again. 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. And the question comes from the line of Kévin Roger from Kepler Cheuvreux. Your line is open. Please ask your question.

Kévin Roger (Kepler Cheuvreux): Yes. Good afternoon. Thanks for taking the time. The first one is to come back on the EBITDA margin forecast by division because when I'm trying to make some calculation based on your guidance and your backlog for execution in 2023, I'm arriving basically to a Subsea H2 EBITDA margin of at least 15% that is embedded in your guidance. So the first element is, am I missing something when I arrive to this conclusion? And the second, if it's relatively true, is there any reason why the 2024 EBITDA margin in the Subsea segment should be below the H2 2023? So that would be the first question, please.

And the second one, I think if there is one element that surprised us quite a lot over the past two quarters is the level of escalation orders still at $0.7 billion this quarter. Is it fair to assume that until the Subsea tendering pipeline is at record level, the level of escalation order should remain also relatively high? Thanks a lot.

John Evans: Okay. I'll take the EBITDA 2023 question, and then Mark can give a bit more detail on the escalations.

We are pretty comfortable with the consensus for this year, and we're pretty comfortable that the Seaway 7 business will be in double-digit margins. So, as you said, the maths work their way through from there.

I'd just like to remind you and everybody on the call, we've been quite clear here that we expect an inflection point at the middle of this year. We had taken on some large complex projects during 2020 and 2021, where the market was very tight, and we're now liquidating those projects. And as you've seen this quarter, we've liquidated chunks of Marjan, chunks of Bacalhau, chunks of Sangomar. So we have spent a lot of time this quarter liquidating lower-margin work. We do expect the second half to have a better margin in terms of where we're at.

And the general trend on margins, I won't go into the specifics of 2024 at this stage in the year, but as we said, we do expect the trend to improve, and we do expect to see a good cycle coming from here. So that's where we are on 2023 margins. And maybe, Mark, you can give a bit more detail on the escalation?

Mark Foley: Yes, indeed. As we're all familiar, escalations are a normal part of the contracting business and escalations of Subsea 7 have been elevated now for several quarters. They break into two primary components: one, where we have contractual indexation in certain countries with certain customers, Brazil being a good example; as well as the customary variation order requests that we receive from our clients regarding a change in scope and a change in timing, so moving the [installation] window as a result of developments on drilling or indeed [delivery of] FPSOs.

So it's difficult for us to predict what those levels are likely to be, Kevin. But yeah, it does underpin the new order intake we've had in recent quarters.

John Evans: And the other item I'd just like to add to Mark's point is some of our contracts today have an initial kick-off where we do FEED and early engineering. And then we may have procurement [of long-lead items as a variation order on the FEED contract]. So one of the contracts we have in Q2 is where we've gone ahead and procured the umbilical and the line pipe. So Mark's point is right, but it's not just variation orders because of change. There are some mechanisms these days that our clients want to have the ability to go in stages in some of these contracts.

Kévin Roger: Thanks, guys.

John Evans: Thank you, Kevin.

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 Martin Huseby Karlsen from DNB Markets. Your line is open. Please ask your question.

Martin Huseby Karlsen (DNB Markets): Thank you. A quick question on the CAPEX side for me. Based on your guidance, you have around $350 million left to spend in 2023. I guess you have fully paid the shipyard for the Alfa Lift by now, but could you provide us with the split of the remaining CAPEX between the Ventus mission equipment on the Alfa Lift and other key categories?

Mark Foley: Yeah, in terms of the two newbuild vessels that we have in Renewables, we probably have something in the region of $300 million, Martin, to go on the build. So that covers the Alfa lift, which is a small remaining part; the Ventus, where there's a significant upcoming milestone payment, as well as other elements of mission equipment.

Martin Huseby Karlsen: Thank you. And a quick follow-up on the Alfa Lift, if I may. It seems like the vessel will do transition pieces through 2025 which seems like quite low-end work for a quite high-capacity vessel. Does this imply that the mission equipment won't be completed and installed until late 2025 or even into 2026? And if that is the case, could you help us understand phasing of the mission equipment CAPEX beyond 2023?

Stuart Fitzgerald: I can take that one, Martin. So we've taken the decision, as we've stated in the release here to derisk Dogger Bank, to not have a dependency on mission equipment delivery. The build of that mission equipment is ongoing, but we would not intend to install that mission equipment ahead of, for example, the 2024 campaign. We focused the vessel on transition pieces, and we see acceptable returns on the vessel investment in that mode, given these transition pieces are large and it is relatively high spec work.

Second part of the question, I think, in terms of when the mission equipment will go on board, key point for us is to not create dependency in our forecast programme here on the readiness of that mission equipment for installation. So we would expect that that pushes out beyond the Dogger Bank project.

Martin Huseby Karlsen: But just to clarify on this, should we think that the 2023 CAPEX guidance fully captures your spending on the mission equipment? Or will there be additional spending in 2024 and 2025 as well?

Mark Foley: Well, there’s a few hundred million of provided covers the remaining expectations that we have for the two vessels as well as the ancillary equipment.

Martin Huseby Karlsen: Okay. Thank you. I'll turn it back.

Operator: Thank you. Now we’re going to take our next question. Please stand by. And the next question comes from the line of Christopher Møllerløkken from Sparebank 1 Markets. Your line is open. Please ask your question.

Christopher Møllerløkken (Sparebank 1 Markets): Good afternoon, gentlemen. The news of the quarter was clearly the bid that you put in for DOF earlier, which was rejected. Could you please update us on the situation regarding potential consolidation in the Subsea industry going forward? Thank you.

John Evans: Christopher, I think the interest in DOF was clear to us as part of the IPO process that they had. As we mentioned to our investors when we announced it at the particular price point that that was put on to the market, we were interested in the business, and we continue to be interested. We will continue to have to charter more tonnage to be able to liquidate the work that we have. And we will push ahead in the second half of this year with further charter tonnage to make sure we have the capacity to deliver what we believe is going to be a very long upmarket here in Subsea and also, we have a good market in Renewables.

So, for us, we see the need for charter tonnage in our fleet and DOF fitted the bill at the price point that was originally identified. As you know, the history of that bid was that the Board of DOF did not want to pursue that with us, and therefore, it lapsed. So we continued to run our business the way we've always run it, which is that we own our key enablers and then we bring additional tonnage in as we need to.

Christopher Møllerløkken: Thank you.

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

Guillaume Delaby (Société Générale): Yes. Good afternoon. Maybe a question regarding the durability of the cycle. So you are providing a new data point, which is, I think, the subsea tender pipeline of $20 billion. So this is data point number one. And I understand that pricing continues to improve as we speak today. I just would like to be sure, and this would be my first question.

And my second question, which is, of course, related with the first, is SLB mentioned on Friday evening that basically they now expect $500 billion of offshore FID for the period 2022 to 2025. So am I missing something if I'm saying, hey, look, the market continues to tighten, pricing continues to tighten and pricing is likely to continue to tighten in H2 2023-2024, which might be the peak of pricing and/or bargaining power.

And if my thought process is correct, should it mean peak margin, not at the end of the next four years but maybe in 2028 and 2029. I'm sure you are not going to commit yourself for 2028 or 2029. But just would like to be sure that my thought process is not too, I would say, candid. Thank you.

John Evans: Guillaume, great question. And the good news is I certainly won't commit to 2024 at this point, let alone 2028, 2029. Your logic is absolutely right. As we mentioned in the DOF transaction, nobody is building tonnage in this sector at the industry at the moment. There is tonnage being built in renewables, but very specifically, the jack-up [turbine installation] side of that business, which we don't have much of an exposure to. So if we come back to the basics here at the moment, we believe that there is a good long cycle in oil and gas coming. We believe we're very well-positioned to do that.

We've been open with the market that we will need additional tonnage to do that, but we don't intend to build it. We will charter it. We will find a way of getting access to that tonnage. So we do believe there are a number of good years ahead of us. I think it's very hard to project ahead as to where the peak point in the cycle is.

As I said in my final paragraph in my prepared remarks, we continue to experience high level of tendering, pipeline of $20 billion in Subsea, $5 billion in Wind, which is supporting a positive pricing dynamic. That's where we're at today, and we keep working the market as we see it.

I think the other point to remember here as well is, in this cycle, it is still the two main competitors that we've always had, Saipem and TechnipFMC. So there are three large players here in this market, and there aren't many regional players that we've seen in previous cycles that tend to disrupt the market.

So directionally, your thought process is right. I think it's very hard to judge where that peak point is. We're just working our way through it and trying to optimise our position on each tender that we put in and each piece of work that we bring into the house at the moment[?].

Guillaume Delaby: Thank you very much, John. I hand it over.

Operator: Thank you. Now we're going to take our next question. Please stand by. And we have the next question comes from the line of Victoria McCulloch from RBC. Your line is open. Please ask your question.

Victoria McCulloch (RBC Capital Markets): Hi, afternoon. Thanks all. Maybe following on from that, could you give us a little bit of colour as to how discussions are going in terms of margin and tendering in a backdrop of commentary that seems to be focused on the wider market and inflation and certainly seeing some projects delayed? You noted Bay du Nord. These are being delayed due to economics, so maybe how those conversations are happening with yourselves?

And then a second question, if I could. Looking at the prospects for subsea, a growing number of these seem to be integrated awards, including CCS work. Do you see this being a greater demand and anticipate this growing as that agreement is formalised in the second half of this year? Thanks very much.

John Evans: Yeah, I think your question is a good one about the pressures in the market. We are seeing that input costs from our suppliers are stabilising now. They had gone up with the disruption that we saw in the market last year. But I think it's fair to say that Petrobras in Brazil goes at full tilt with its plans. Saudi Aramco goes full tilt with its plans. Qatar goes full tilt with its plans. Norway goes full tilts with its plans.

So, yeah, there are certain areas where clients make their choices and that's absolutely their prerogative to make sure that they are using their shareholder cash well for future CAPEX. But at the moment, we're seeing the general trend pointing the right way. We always see that certain projects in certain jurisdictions can be challenged. So, again, I think we're not sitting here today concerned about the general direction. But we know our clients, especially on very complex field developments, may have two or three shots at how they configure it; how they develop, the speed at which they develop, the speed at which they bring cash on, how many wells they bring on.

That has always been part of our industry, which then brings us to the SIA and the integrated projects. And that's where we do see our relationship with Schlumberger and in due course with Aker [Solutions] coming in – the AKSO entities coming into that alliance as well. We see that there's real value in some of those discussions.

You asked as well about carbon capture. The SIA does have a carbon capture offering in the market, which again is a tailored piece of subsea hardware, along with our SURF capability. I mentioned in my prepared remarks, we will be bidding the Northern Endurance Partnership this year in the UK.

I think as a market, it is gaining traction, and we're seeing most countries in Europe will have one CCUS type project in their portfolio. Norway has led the way with Northern Lights. And we're very pleased to be physically building one of the first carbon capture projects in the world in the offshore arena. So for us, at the moment, we don't see that as being a huge volume of work for us, but one that the SIA is very interested in and one that we will pursue with energy.

Victoria McCulloch: Thanks very much for the colour. Very helpful.

Operator: Thank you. And now we'll proceed to next question. And the question comes from the line of Richard Dawson from Berenberg. Your line is open. Please go ask a question.

Richard Dawson (Berenberg): Hello. Thanks for taking my questions. Just a couple for me. Firstly, on net debt, so currently it's just over $800 million. Where do you see that moving to by year-end? I appreciate there's a fair chunk of CAPEX still to come on those new-build vessels, and then also that first payment on the SIA. But just sort of on the working capital, how much of that unwind can be achieved by year-end?

And then just secondly, on EBITDA margins, just a quick follow-up. Just given the performance in the Renewables segment this quarter and the double-digit margins expected in H2, could we see Renewables contributing to that 15-20% target earlier than you had expected? That's it from me. Thank you.

John Evans: Mark will take the net debt and working capital questions.

Mark Foley: Thank you, Richard. As John and I have communicated over several quarters now, 2023 represents a year of significant investment in the business. So one, in terms of working capital; two, as you alluded to, the investments we're making on new build vessels – the Seaway Alfa Lift, Seaway Ventus for the renewables opportunities that we see in flexible offshore wind, not least the expected first tranche payment of $153 million for our 10% share in the new OneSubsea joint venture.

So net debt, just over $800 million in Q2, probably signifies the peak. And we expect that to, kind of, come down in the region of $100 million to $200 million by year-end. The caveat here, of course, is working capital. Working capital is fiendishly difficult to estimate with a high degree of accuracy. So that can be the swing factor and that can move expectations a quarter or two. But I do expect to see the net debt come down, based on our assumptions, particularly underscored by working capital, by the end of the year.

John Evans: And to answer your question on 2023 EBITDA margins, I'd say again, the same answer as I gave previously. We're comfortable with where consensus is at the year-end and we're comfortable that Renewables will be a solid deliverer for us there. And as we discussed, this was a year where we liquidated and put behind us some of the lower margin work and the better-quality work in subsea cuts in the second half of the year.

So we have always taken a view that Renewables would turn this year, and the work that Stuart and the team have done in Seaway is now proving that we're on that path.

Richard Dawson: That's great. Thank you.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one one on your telephone keypads. Now we're going to take our next question. And the question comes from line of Daniel Thomson from BNP Paribas Exane. Your line is open. Please ask a question.

Daniel Thomson (BNP Paribas Exane): Hi, good afternoon. Just one quick one for me. I noticed on the subsea bidding pipeline, regarding Nigeria, there were no, sort of, opportunities listed there despite, sort of, in the industry news media, some opportunities recently resurfacing. Always a bit of a difficult market. I mean, are you just being a bit cautious on the outlook for near-term opportunities actually moving forward there? Or are you not intending to bid on existing opportunities for strategic reasons, perhaps? Thanks.

John Evans: Daniel, yeah, that's a good question. As we mentioned, we did a write-off on certain shallow water Nigerian assets, which we have decided is not a market for us in the future. We continue to remain interested in the deepwater projects in Nigeria. We're just trying to understand will the stars align for the timing of those to succeed. History will show that we've spent many years bidding some of these larger projects, and whether or not they actually come to FID is one of the key challenges for us at the moment. So for us, we continue to be interested in deepwater Nigeria, absolutely.

Daniel Thomson: Okay. Thank you.

Operator: Thank you. Dear speakers, there are no further questions at this time. I would now like to hand the conference over to our speaker, John Evans, for any closing remarks.

John Evans: Well, thank you very much everybody for joining us in our Q2 call. We're on the path that we've declared that we're on. We can see both our markets picking up. We're very pleased with the order intake and we expect the second half to play out as we've guided the market here. So thank you very much for joining us. Thank you very much for your questions. And as ever, we're available offline if we need to give any further information to you.

So we will see you soon with our Q3 results. Thank you. Goodbye.

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

[END OF TRANSCRIPT]