Subsea 7 S.A. Release of Q1 2019 Results

Transcript

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Speakers:

Jean Cahuzac, Chief Executive Officer
Ricardo Rosa, Chief Financial Officer
John Evans, Chief Operating Officer
Isabel Green, Investor Relations Director

Isabel Green
Thank you and welcome everyone to our first quarter results conference call. With me on the call, today are Jean Cahuzac, our Chief Executive Officer, Ricardo Rosa, our Chief Financial Officer, and John Evans, our Chief Operating Officer. The results press release is available to download on our website along with the presentation slides that we'll be referring to on today's call.

Before we begin, I'd like to turn to slide two and remind you that this call includes forward-looking statements that reflect our current views and are subject to risks, uncertainties, and assumptions. Similar wording is also included in full disclosure in our press release. I'll now hand the call over to John.

Jean Cahuzac
Thank you, Isabel, and good afternoon and welcome to our 2019 first quarter results conference call. I will begin with the highlights of our performance this quarter before handing over to Ricardo, who will present our financial results in more detail. I will conclude with a summary of the market and comment on our differentiators. We will have time for questions at the end of the call.

Starting with the highlights of the quarter on slide four, our revenue for the quarter was $859 million dollars, $50 million more than the prior year due to an increased contribution from our SURF and Conventional business unit where we saw higher levels of activity in Norway, UK, and Africa. Adjusted EBITDA was $111 million dollars giving a margin of 13%. This reflected continued activity on projects won on competitive pricing and the typically lower activity levels in the first quarter of the year. Loss per share was $0.06.

Our differentiators delivered a strong competitive position which was reflected in nearly $1.1 billion dollars of new awards and escalations. As a result, our order backlog increased to $5.2 billion dollars. We maintained a strong financial and liquidity position with net cash of $413 million dollars at the quarter end, after $75 million of share buybacks were executed in the quarter.

Quarter vessel utilisation was good for winter period with total utilisation of 68%, 16 percentage points higher than the previous year. It should be noted that our largest vessel, *Seven Borealis,* was in a plant shipyard for the period undergoing class survey and scheduled maintenance.

Strategically, we strengthened our alliance with OneSubsea with the implementation of a dedicated management team reporting to the Subsea Integration Alliance Board, and we took the opportunity to acquire the Diving Support Vessel, *Seven Pegasus*, at an attractive price. We also invested in Xodus, acquiring the remaining 40% we did not already own as a strong engineering and design company.

Turning to slide five to review some of our activities through the first quarter. The Snorre project continued with the application of the bundles at our facility in Wick in Scotland. So far, over 100km of pipe has been welded with a further 80km due later this year. The first Snorre bundle is due to be launched at the end of the second quarter and it will be the number 82 bundle that we have launched from the facility.

The PUPP project continues to execute work in the shallow waters offshore Nigeria. On the slide, we can see the shore approach of the 24" pipeline with *Seven Antares* laying pipe on the horizon. Spools and riser were also installed in the quarter.

The Aerfugl project, which is due for offshore operations next year, is an electrical heat traced flowline solution. By helixing electrical cables around the pipeline, we are able to improve the flow characteristics of the pipeline allowing for increased tieback lines. This quarter, progress was made with pipeline permutation trials, which are the key milestones in preparation for the installation next year.

The West Nile Delta phase two project for BP off the coast of Egypt continues to progress well. Seven Sea has pulled down flexible flow lines in Europe in the quarter and completed the transit to Egypt where we have commenced our installation. The large construction vessel, *Simar Esperança*, continued with construction work, including flying list.

In the Middle East, work progressed well on the Hasbah project, which neared completion. In the quarter, pipelay was completed by the *Seven Champion*.

Seaway 7, our Renewables and Heavy Lifting branch continued work on the Hornsea One wind farm project off the coast of the UK. Both are specialty vessels*, Seaway Aimery,* and *Seaway Moxie* was working on this project in the quarter, with 28 cables laid. *Seaway Aimery* later transited to Egypt to complete umbilical installation for the Atoll project.

In Life of Field, we successfully delivered a hyperbaric welding system for Dolphin Energy Emergency Repair System allowing for intervention and recovery at short notice on damaged pipelines. We also commenced a five-year IRM frame agreement offshore Norway for Equinor using our hybrid powered vessel, *Seven Viking*.

In Brazil, our PLSV fleet remained very active in the quarter, with all four vessel achieving high utilisations. We are continuously improving the efficiency of our PLSV fleet. Recent business improvements included the ability to automate our installation procedure using our digital installation procedure platform, E7. Our strong execution in Brazil in both our PLSV and Life of Field Services was recognized by Petrobras, who awarded Subsea 7 best supplier for our work.

Moving to slide six, we ended the quarter with Order Backlog of $5.2 billion, $300 million higher than the level reported at the end of 2018. $1.1 billion of work was awarded in the first quarter, with nearly $900 million in new awards and over $200 million in escalations. This gave us a book-to-bill of 1.3x for the quarter. Over 80% of our backlog is attributed to SURF and Conventional work as we have seen an increase in awards in line with market recovery trends.

We announced three awards in the quarter:

1. A five-year IRM contract for BP for work in their North Sea portfolio. This is the fourth announced award for BP in the 12 months.
2. The Arran project for Shell, which is a 60km pipe-in-pipe flowline tieback adding to our growing portfolio of projects for them in the North Sea.
3. The Berri-Zuluf project under our LTA with Saudi Aramco.

Moving to slide seven, in the first quarter, Subsea Integration Alliance, our integrating offering with OneSubsea, announced two FEED contracts by Woodside for greenfield projects in Senegal and Australia. A further Woodside award in Australia was also awarded on a standalone serve basis to Subsea 7. Upon FID, this project will be executed by Subsea 7, however, our prudent approach to backlog recognitions means that only the FID value has been recognized in our backlog to date. Had we included the full value, our book-to-bill in the quarter would have been more than 2.

I would like to share with you some of the details of these projects. SNE Phase 1 is a large greenfield oil development offshore Senegal for a new province. Our flexible riser solutions and specialised-clad reeled-flowlines will connect the 23 Christmas trees back to the new FPSO.

Scarborough and Julimar are gas fields offshore Australia that will eventually tie back to existing onshore LNG facilities. LNG has become increasingly important on the supply curve as the benefits of gas over heavier oil are recognised. Our solutions are adaptable to either oil or gas production and Subsea 7 has, therefore, been able to benefit from the increased activity in energy.

Our teams have commenced engineering for all these three projects ahead of installation, which is scheduled in 2021.

I will now pass over to Ricardo.

Ricardo Rosa
Thank you, Jean. Good afternoon, everyone. Let’s first look at the income statement highlights on slide eight. First quarter revenue was $859 million dollar, 6% higher compared to the prior year quarter driven by an increase in SURF and Conventional activities that more than offset the significant decline in revenue

from Renewables and Heavy Lifting. Adjusted EBITDA of $111 million, 8% higher year-on-year, comparatively benefiting by $27 million dollars due to the changes to lease accounting in 2019.

Net operating loss was $10 million in the first quarter. The impact of the changes to lease accounting on the net operating loss was not significant. Therefore, the net operating loss in Q1 2019 was broadly comparable to the first quarter 2018 net operating loss of $8 million. Net loss for the quarter was $19 million and the loss per share was $0.06.

Slide nine provides additional detail behind the income statement. The administrative expense of $58 million dollars was 20% below the prior year period and reflected, amongst other factors, the impact of restructuring initiatives in the Renewables and Heavy Lifting business unit. We are maintaining our cost discipline as the market activity recovers with a focus on innovation and process improvement to efficiency gains.

Other gains and losses of $17 million included a $24 million loss related to foreign currency movements, largely derived from the strengthening of sterling against the US dollar in the quarter. A tax credit of $10 million dollars reported in the quarter was equivalent to an effective tax rate of 35%, in line with our guidance for the full year.

Slide ten shows the revenue and net operating income by business unit. In our SURF and Conventional business unit, first-quarter revenue of $747 million was almost 30% higher than the prior year period. The improvement on last year reflected various smaller projects underway in the North Sea and US Gulf of Mexico and higher levels of activity for our fleet of diving support vessels. Our fleet of PLSVs offshore Brazil achieved high levels of utilisation and several of our larger projects progressed well with engineering, procurement, and fabrication.

SURF and Conventional net operating income of $4 million dollars were lower compared to the prior year quarter, primarily due to the lower projects on projects awarded in the downturn and the phasing of larger projects. As is usual for the first quarter, activity levels were adversely impacted by the challenging weather in the winter months in the North Sea.

Life of Field revenue was $60 million dollars, $8 million dollars higher than the prior year support. ROV supported inspection repair and maintenance activities increased. Activity for ROVs on drill rigs stabilized at low levels. Net operating loss in Life of Field was $3 million for the quarter.

Our Renewables and Heavy Lifting business unit generated $53 million dollars in revenue, compared to $173 million dollars in the prior year period. This significant decline was in line with expectations and reflected lower levels of activity for the heavy lifting vessels following the substantial completion of the very large Beatrice wind farm project last year. *Seaway Moxie* and *Seaway Aimery*, our two vessels involved in cable laying, were well utilized in the quarter, making good progress I the Hornsea One wind farm project. The commissioning phase progressed on the Borkum II wind farm project, which is now over 95% complete. The net operating loss for Renewables and Heavy Lifting was $9 million dollars in the quarter.

Slide 11 summarized our cash position and the main cash flows reported in the quarter. Our financial and liquidity positions remain strong. At the end of March, we held $666 million dollars in cash and debt of $253 million dollars. Our lease liability was $412 million and is not included in our net cash of $413 million dollars. In addition, we have a revolving credit facility of $656 million dollars that remained unutilized.

In the first quarter, we generated $58 million dollars in cash from operations, after deducting cash tax payments totaling $36 million. Working capital related cash flow was broadly stable with an inflow of $6 million dollars from the increase in operating liabilities. Our capital expenditure in the quarter was $68 million dollars. This included $38 million related to the timely acquisition of a diving support vessel, *Seven Pegasus*, and also reflected the continued construction of *Seven Vega*.

We also took the opportunity in a quieter period to take *Seven Borealis*, a key global enabler for our fleet, out of service for a major overhaul in dry dock. This dry docking has since been completed in time for it to return to work for the summer campaign.

We had payments related dollars lease liabilities of $24 million dollars. This was broadly in line with the $24 million amortisation charge relating to the $406 million dollars right-of-use assets established and recorded on the balance sheet as a result of the introduction of the new accounting standard IFRS 16.

After investing in the business and maintaining a secure financial liquidity position, we have a strategic commitment to return surplus cash to our shareholders. In February, we completed our 2014 share repurchase programme and launched a new programme with a two-year duration and a $200 million dollars limit. In the first quarter, we repurchased 6.6 million shares under these two programmes with an average price of NOK 98 per share and total cash cost equivalent to $75 million dollars. In addition to the repurchases made in the first quarter, we have spent a further $35 million on the repurchase of 2.7 million shares since the start of April.

On 17 April 2019, shareholders renewed our authority to repurchase and cancel shares up until October 2021. Today, we are cancelling 15 million shares, approximately 5% of the shares outstanding, confirming our commitment to capital discipline and shareholder returns.

Also, on 17 April 2019, shareholders approved a special dividend of NOK 1.50, which will be paid tomorrow, resulting in a cash outflow equivalent to approximately $55 million dollars. Combining our 2019 dividend and share repurchases, we have returned $165 million to shareholders so far this year. The total return since 2011 is close to $1.8 billion dollars.

We continue to evaluate the various asset and business investment opportunities, and we will prioritize these above cash returns if we believe they will create better long-term value for our stakeholders.

Slide 12 sets out our 2019 guidance, which includes the impact of the new lease accounting standard IFRS 16. 2018 was not affected by this new standard and we will not be restating comparatives. We have updated our guidance for 2019. Revenue is now expected to be broadly in line with 2018. Our guidance for adjusted EBITDA is unchanged and still expected to be lower, inclusive of the uplift of between $100 million and $110 million dollars applied to 2019 adjusted EBITDA as a result of IFRS 16.

Net operating income is expected to be positive for the Group. Administrative expense is expected to range between $260 million and $280 million dollars, unchanged from our previous guidance. Net finance cost guidance is also unchanged and is expected to be between $10 million dollars and $20 million dollars. Depreciation and amortisation are still forecasted to be between $480 million dollars and $500 million and includes between $90 million and $100 million dollars of amortisation charges related to the leased right-of-use assets.

Our full-year tax guidance is unchanged with the effective tax rate forecast between 33% and 35% in line with the underlying rate reported for the first quarter. Capital expenditure for the year is still expected to be between $270 million dollars and $290 million dollars and includes approximately $100 million dollars to be spent on the new-build reel-lay vessel.

I will not pass you back to Jean.

Jean Cahuzac
Thank you, Ricardo. Let us now go on to slide 13. We have recently refreshed our corporate vision, values, and differentiators. We related this to show what Subsea 7 can bring to clients that create sustainable value and ultimately, why our clients and people choose to work with Subsea 7. Our vision is to lead the way in the delivery of offshore projects and services for the energy industry. We believe through our values we define who we are and how we behave.

In 2019, we added sustainability as a sixth value having included it implicitly within our other five. We are committed to our values in all that we do. In the quarter, we rolled out a new safety programme to 1200 leaders across the company, including the whole executive team as we seek to make every day a good safety day.

Slide 14 illustrates the importance of being the partner of choice for our clients. All our differentiators help us to win work and retain clients who trust us with multiple projects in long-term relationships. Over the last 12 months, for example, we have seen the benefit of our relationship approach with Shell, Woodside, and BP, some of the largest clients in the industry in terms of CapEx budget. Between them, they have awarded us 12 projects.

Moving to slide 15. We are a global team with the expertise, passion, and commitment to deliver for our clients and make our clients want to work with us. Our culture and commitment to local content enable us to win work in regions such as West Africa. In 2018, we recommenced work in Angola with the Zinnia project for Total. Our creative engineers and project teams innovatively design new technology and processes. Our technology development such as the onshore ROV pilot control centers has aided us to secure contracts such as the Equinor IRM contract in Norway.

Our relationship approach helps us work and learn together to achieve successful results for all. Our eight awarded projects within Subsea Integration Alliance and our work with Aker BP are another way that our relationship approach creates value. We are reliable in our performance and execution making us a trusted partner. Our clients, new and old, choose to work with us based on this reliability.

Creating the right solution is fundamental at Subsea 7. Our extensive technology portfolio means that we can deliver the most effective solutions for our clients. For example, our electrically heat trace flowline solution is about to be installed for the first time on the Manuel and Aerfugl projects. Our long-standing pipeline bundle solution continues to be highly effective with Penguins and Buzzard phase 2 projects being award last year.

Moving now onto slide 16. Our differentiators are why we are confident that we will continue to win work and over time improve our margins. We expect the offshore oil and gas markets will continue to gradually recover, and we agree with Rystad the prediction of a trough in 2019 for Subsea pipeline installations. In our own backlog, 2021 is already becoming a busy year for reel pipelay projects around the world and in particular Australia.

An industry indicator for offshore installation activity is Christmas tree activity. Pipeline installation lags behind Christmas tree installations, with a trough in 2017 and has seen increased activity in 2018. In 2019, there are potentially 54 notable projects reading FID according to a market report. And I'm confident that our differentiators will allow us to secure a good share of this work. As we build backlog for our key vessels in 2020 and 2021, we have been able to start increasing our pricing for these higher expected activity levels.

Moving on to slide 17, I will conclude with our view of the outlook for market awards by business unit. Starting with the SURF and Conventional outlook, tendering and award activities continue to steadily improve around the world. We expect some of the larger projects, such as moving to be awarded to market in the second half of the year. Tendering and early engagement activity is already underway on each of these potential awards.

In Renewables and Heavy Lifting, there are several projects being tendered and awaiting FID. This includes the HK ZED offshore wind farm projects where we have already been selected by Vattenfall as its T&I partner with FID and contract award anticipated later this year. Competition for wind farm awards has intensified with the arrival of some of our peers from an oil and gas background, but we remain confident in our competitive position.

For Life of Field, tendering activity for IRM service is increased, particularly in the US Gulf of Mexico and the North Sea. The demand has looked for global rig support treatments at a low level.

So, to summarize, we remain confident in a gradual oil and gas market recovery. Competition on new SURF rewards is still challenging, but as volume increases pricing is starting to show signs of improvement from the very low level in 2018. I am very confident that our differentiators and values will help us to achieve more than our fair share of awards in all our markets.

Now, Ricardo, John and I will open the call and take your questions.

Q&A

Operator

Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. And if you wish to withdraw your question, you may do by pressing 02 to cancel. There is going to be a brief pause while questions are being registered. Our first question comes from the line of Michael Rae from Redburn. Please go ahead, your line is now open.

Michael Rae

Yeah, hi. Thanks for taking my two questions. Just first you flagged the weak pricing in the quarter, but can you just give a rough outline of the impact of having *Seven Borealis* in dry dock and also *Seven Seas* transit thing to Egypt? It just seems like this wasn't a normal operating quarter in terms of vessel availabilities. So, I'm wondering how much of an EBITDA impact that had. And then the second question, just on Brazil, which looks like a rigid market now because of this flexible riser corrosion issue, what does that mean for your PLSVs when they come off contract in a couple of years? Is there enough work to maintaining the installed base of flexibles in Brazil that will keep those vessels utilised? Or will you start to bid them on contracts around the world? Thanks.

Jean Cahuzac

John, I'll let you answer the questions.

John Evans

Yeah. Well, two things to think about in terms of our quarters, we get the seasonality effect of clients not wanting to work in the poorer weather in the North Sea and in the Gulf of Mexico in quarter one generally. And yes, you're correct that this quarter, we also had two of our larger assets – one transiting and one under maintenance – so that does have an impact on our returns for the quarter. But, I think the message we've always given is that quarter one is generally one of the quieter quarters we have as a company.

Turning to Brazil, I think it's important still to reflect on that flexibles are still very, very important to Petrobras. Yes, there are some technical issues which a lot of work has been done on the designing of very, very high spec CO_2 laden fields that they have there. But the message is very clear. You've seen that Petrobras has been out looking for bids for pipe supply in the last quarter as well. So, we still believe that there's going to be a market for flexibles in Brazil come the time our ships are due for renewal in 2021. The size and scale of that are what's on everybody's mind at the moment. But certainly, flexibles will be part of the future in Brazil.

Michael Rae

Okay. And if I could just follow-up briefly on the buyback. I was going to ask about the termination of shares, but I think you've answered that in the preamble. Did you say that you're going to terminate all of the treasury shares that you hold as of today?

Ricardo Rosa

Michael – not strictly correct. What we have said is we are cancelling today 15 million shares which are in treasury. We have approximately 17.3 million shares in treasury as of today. So, we're cancelling the vast bulk of them with a residual figure there. And obviously, it's something we'll be looking at a regular basis and if we need to cancel more shares, we'll do so.

Michael Rae

Okay. That's great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Vlad Sergievskii from Bank of America. Please go ahead. Your line is now open.

Vlad Sergievskii
Yeah, thanks, guys. Thanks for taking my question. I just wanted to clarify your comment on improving pricing. So, is pricing improving on the contracts you put into your backlog today or on the contracts you are basically tendering today which were awarded later in the year? And secondly, will you be able to give us some idea of whether proof of contracts for this year for this quarter is margin accretive or margin dilutive compared to your average, let's say, Group EBITDA margin which concerns us at about 15% for the year? Thanks very much.

Jean Cahuzac
What I would say is that what we are seeing is a gradual improvement of the market and we are able to improve the margins for the work being awarded now and in the months to come. We are still executing projects which have been awarded at low margin and that's impacted the results to date. We are not back to big margins. It's a gradual improvement.

Regarding the impact of the pool of projects, it's difficult to answer your question. It all depends on where they are, the size of the project and all of that. So, I would say in aggregate the only comment I can make is that the trend is going in the right direction, but I cannot be more granular.

Vlad Sergievskii
Okay. Thanks very much.

Operator
Thank you. Our next question comes from the line of Frederick Lunde from Carnegie. Please go ahead. Your line is now open.

Frederick Lunde
Hi. Good afternoon and congratulations on the attractive prices you've been able to buy back shares for. My questions would be – first on the receivables, you indicated earlier in Q4 that you expected a reduction in receivables in the first half of this year. So, a little update on that would be good. And also, are you seeing more competition in the offshore VIN market? Is that on the large EBIT contracts? Or is it more a subscope on the larger contracts?

Jean Cahuzac
I'm going to take the competition on the renewable market and let Ricardo comment on the receivables. What we alluded to in the comments is that some of our competitors from oil and gas have entered the Renewables, namely Saipem and Heerema who decided to get out of the oil and gas and go to Renewables. So, I think they see this time medium to long-term potential in this business and have the same view on the market, which is a growing market in the years to come. But it's additional competition. I'm convinced that based on previous experience, we'll remain quite competitive on that. It's both on the EPCI and T&I projects. Ricardo on receivables…

Ricardo Rosa
Yes. Thank you, John. Good morning Frederick. We had – you're quite right. We had predicted an improvement in working capital, and in fact, this quarter trade receivables are effectively the disappointment. We had expected an earlier improvement that has been achieved this quarter. But we know where the delays are, and generally, it's due to lengthy administrative processes adopted by some clients. But, I can assure that the collectability is not a concern. A working capital improvement is a priority for us, and we expect to see this occurring over the course of the year. But not perhaps to the same extent in the first half as I had predicted, I believe, in Q4.

Frederick Lunde
Okay. Thank you.

Operator
Thank you. Our next question comes from the line of Amy Wong from UBS. Please go ahead. Your line is now open.

Amy Wong

Hi. Good afternoon. A couple of questions from me, please. In terms of – thanks for kind of providing the separate disclosure on the escalations versus the project bookings. When you characterize the escalations that you are booking in this cycle, can you compare some of the characteristics to the previous cycle? It's always been a big area of contention in terms of whether the margins are better on escalations. But can you just give us some colour around some of the characteristics around the escalations this cycle around? Then, my second question is a simple one. It's a bit more housekeeping. Could we get some guidance on cash taxes paid this year, please?

Jean Cahuzac
Ricardo, do you want to start with the housekeeping. And then Jon will answer the escalations.

Ricardo Rosa
Amy, I think from a cash tax perspective, I think we have a pretty simple profile. You can assume that by and large, our provision is pretty much in line with the cash taxes that we will pay in the course of the year.

Amy Wong
Okay.

John Evans
And on the escalations, primarily these we're showing now where we are under contract with a client and they give us call offs. So, some of our IRM work in the North Sea is done on a call-off basis per quarter or per half a year, and it's when those get put into the packages that we put them there.

Jean Cahuzac
It also includes John – from escalation on shallow water work in Nigeria.

John Evans
Correct. Yes.

Jean Cahuzac
Where we see a positive trend. It has been a significant part of revenue in the old time – in the good years. We're not yet back to that, but it's going in the same direction.

John Evans
Absolutely.

Jean Cahuzac
So, that's quite positive.

John Evans
But both of these types of elements, Jean, are already work that in we have frameworks where the clients are calling it off not additional work at the end around. But, as you said, the trend is pointing the right way.

Amy Wong
Great. That's very helpful. Thank you very much.

Operator
Thank you. Our next question comes from the line of Henry Tarr from Berenberg. Please go ahead. Your line is now open.

Henry Tarr
Hi, there. And thanks for taking my questions. Firstly, just on Xodus. You've obviously taken control of that entity. What made you do that? And do you think controlling the fleet studies is becoming more important in the market? And then secondly, just on vessel utilisation through the remainder of this year, how do you see it trending relative to where we were last year? Thanks.

Jean Cahuzac

Regarding vessel utilisation, we see the same trends as we usually see. There's a question mark in Q4. There will be a question of a seasonal effect. It's difficult to predict at this place what it will be. Based on the activity growing with the clients, it's a possibility that will go in a good direction. And I think on the general utilisation of the oil and gas business, it will be in line with our expectations. As we mentioned before on the Renewables, 2019 will be more challenging and there may be some lower utilisation than in previous years on the Renewables side.

John Evans
And then Jean, maybe on the Xodus. Our position on early engagement, as you know, has been part of our strategic direction the last two to three years to work with our clients to be able to offer that service. We offer it in two different ways through the alliance we have with OneSubsea. We offer very biased solutions which house all our standard technologies and all our offerings for OneSubsea and Subsea 7. So, it's very much for contractor led solutions. But, we're also getting clients seeking client-led traditional feed design work being done. And that's the role of Xodus. So, we believe that having the two strands our work through the alliance with OneSubsea and the work we can do with Xodus allows us to be able to offer our clients the two types of feed studies they want.

Jean Cahuzac
And it's fair to say, John, that we've seen in 2018 and if this trend continues this year, a significant increase in the interest that the clients see in what we can offer on the study engineering.

John Evans
Yes.

Jean Cahuzac
We're doing more and more of these studies, which position very well – return us very well for the future contract awards.

Henry Tarr
Okay. And just going back on the utilisation quickly, I guess total vessel utilisation for the quarter was 68%, which is obviously up substantially on Q1 2017 and 2018. Maybe it's a mixed effect with the *Borealis* and other bits being out. But, we still not sort of seeing that better utilisation come through to the bottom line. There's an obvious weakness in Q1 seasonally, but perhaps I shouldn't read too much into that. But you'd see a normal seasonal pattern for utilisation through the remainder of the year?

Jean Cahuzac
Yes. And I would say that in the first quarter, we had higher utilisation on the smaller vessels.

Henry Tarr
Okay.

Jean Cahuzac
What we also said that we see a significant increase in the requirements from the market on the high-end of the vessel late 2021 when we will see all these large projects being executed to put things in perspective.

Henry Tarr
Okay. Great. Thanks.

Operator
Thank you. Our next question comes from the line of Rob Pulleyn from Morgan Stanley. Please go ahead. Your line is now open.

Rob Pulleyn
Yeah. Good afternoon and thank you. Two questions, if I may. Firstly, if I can come back to pricing and the comment in the outlook statement highlighting that you expect pricing to return to normal levels over time. Would we be okay to ask what exactly normal pricing is? And what does that infer for normalized margins? And the second question in light of the DSV acquisition is: can I ask you to see the capital

intensity of this market recovery? Will Subsea 7 need to significantly refresh its asset base? Or can CAPEX be limited to around current levels as market activity increases? Thank you very much.

Jean Cahuzac
When we talk about the margins, what we are referring to is historical margins. So, I think you have to go back to previous years before the downturn and the crisis. I personally believe that this level of margin over time can be reached. Regarding the vessels and what we need to do, I think we've taken advantage of the downturn to actually renew the fleet. And we had a very disciplined approach on the CAPEX side, but we invested in new vessels. Today, our fleet average age is 10.4 years or will be 10.4 years old when the *Vega* is delivered. As you know, we have been focusing on the high end of the vessels from a technical perspective so, in the foreseeable future, I don't see the significant need – I don't see a need for significant investment on new vessels.

Rob Pulleyn
That's very helpful. Thank you. I'll turn it over.

Jean Cahuzac
The fact that we have a new fleet also lowers the operating CAPEX. Less money being spent in shipyards when we have the boat for planned maintenance.

John Evans
We're in good shape. We're in very good shape.

Rob Pulleyn
Great to hear. Thank you very much.

Operator
Thank you. Our next question comes from the line of Guillaume Delaby from Société Générale. Please go ahead. Your line is now open.

Guillaume Delaby
Yes. Good afternoon. Thank you for taking my question. One question. In your remarks as well as during the Q4 call, you mentioned that 2019 is going to be a difficult year for your Renewables business. So, difficult year as a whole. But I also understood that each one is likely to be particularly difficult. And if I understood correctly the Q4 call, I also understood that within each one Q1 was likely to be the most difficult quarter. So, could you confirm that Q1 for Renewables in terms of margin was the lowest point of the year?

Jean Cahuzac
No. It is very difficult to look at results on a quarterly basis. It's true in oil and gas. It's true in renewables. We are today in discussions with clients on a number of projects. Depending upon the timing of these projects, which are T&I projects in 2019, mainly, the results maybe working one quarter and not the other. It's very hard – I really can't answer your question on a quarterly basis. No doubt that 2019 will remain the low end of Renewables for Subsea 7.

I also want to mention that the Borkum II project is behind us now. We've completed most of the operations and I think the project is now fully de-risked.

Guillaume Delaby
Okay. Thank you.

Operator
Thank you. Our next question comes from the line Kevin Roger from Kepler Cheuvreux. Please go ahead. Your line is now open.

Kevin Roger
Yes. Good afternoon, everyone. One follow-up on the Renewables, please. Because Jean in the presentation, you say that you are expecting some projects to be sanctioned soon in the Renewables. On those projects that you have bid on, is there any projects for the offshore campaign in 2020 that you are

looking on? And can you also remember us what do you have currently in the backlog for execution in 2020 in the renewable activity, please?

Jean Cahuzac
John, do you want to take this?

John Evans
Kevin, I'll take those first. As you know, the UK projects that are for a bit – a number of the UK projects that are out for bid go through a contract for difference auction campaign in September of this year with the UK government. So, there is a lot of bidding going on. But whether the projects will then get the contracts for difference will be sorted out in quarter three this year. We are bidding work for 2020 in Taiwan, where most of that is effectively inside a subsidy regime. And for us in 2020, we are doing the cables in Taiwan on Yunlin. We're also doing a few cables in coastal Virginia in the US. And then back in the UK then we're going to the Triton oil foundations in 2020. So, at the moment, that is our 2020 renewables portfolio at a high level.

Kevin Roger
So, if I want to understand currently what you have in the book for 2020, it's mostly onshore work than offshore work?

John Evans
No. These projects are offshore in 2020. Sorry. I thought was your question.

Kevin Roger
Okay.

John Evans
These projects are offshore in 2020. We have about $400 million of renewable backlogs. But, roughly 50/50 between 2019 and 2020, which we showed in the Annual Report. And all this is transport and install.

Kevin Roger
Okay. Thanks a lot!

Operator
Thank you. Our next question comes from the line of Sahar Islam from Goldman Sachs. Go ahead. Your line is now open.

Sahar Islam
Thank you for taking my questions. Firstly, just on cost inflation, can you talk about what you're seeing at the moment and what you're building into your tenders for the projects where pricing is going up in future years, please?

Jean Cahuzac
I think what we are seeing is that our suppliers are seeing the same thing as we see, which is the market is improving over time. Today, it hasn't really impacted the cost structure. But in some specific cases, we are seeing some moves from the suppliers. As we have done in the past, it's important for us to evaluate this risk and be covered when we can by our clients. But when we actually submit our tender, we take into account the fact that supply chain costs will go up and we are estimating it is and putting it in our price. We try not to take too much risk there.

Sahar Islam
Thank you. And then on these projects where pricing is going up and we start to get more greenfield coming back, can you talk about how the working capital profiles and then the terms and conditions vary from what we would have seen the last cycle, please?

Jean Cahuzac
It depends a lot on the clients and the geographical area. But, I'm going to let Ricardo be a bit more specific.

Ricardo Rosa
I think that Jean has summed it up very succinctly. I think it's a very client specific issue. In general, we will tender on the basis that we want to be either slightly cash positive or cash neutral throughout the life of the project. And that's what we saw historically. And we are still seeing that for a lot of projects and a lot of clients. However, there are a number of clients – or a small number of clients, I should say, where working capital is an issue. I think it's no secret that the Middle East and Saudi Aramco, in particular, is a case in point. But, we are seeing a similar trend potentially affecting Petrobras. We believe, therefore, that it's important to maintain a strong balance sheet to cope with the challenges from a working capital perspective of these contracts and ensure that we can tender competitively.

Sahar Islam
Great. Thank you.

Operator
Thank you. Our next question comes from the line of Mick Pickup from Barclays. Please go ahead. Your line is now open.

Mick Pickup
Good afternoon, everyone. Mick here. Just during the quarter, you've obviously had a couple of FID awards on an integrated basis. Now we're back up and running in the sector. Can you just talk about what the client response has been to integrate versus the more conventional type of awarding profiles?

Jean Cahuzac
We show an increased interest from the clients on the integrated approach. And also, an even greater interest probably on the engagement and engineering part of the project. So, we are seeing a significant part of our business going through this model. And I think that the recent announcement that we made proves the effectiveness of the alliance with OneSubsea in this area. The majority of the projects, however, are still bid on a non-integrated basis. And I think the approach of Subsea 7 is basically pragmatic in matching what the clients want. When it makes sense to go independently, we go independently. When we an added value or the clients see an added value, we go integrated. But we are not saying that one solution fits all. And we remain, I think, quite flexible – probably more flexible than some of our competitors.

Mick Pickup
Okay. And secondly, can you just talk about the Middle East and the market out there. It looks like there's offshore work coming in a number of countries. What are you seeing?

Jean Cahuzac
I think the Middle East we see definitely a lot of activity coming up. In Saudi, obviously, but also in Qatar and to some extent in the Emirates. We are well positioned in the Middle East. I see the two larger competitors, McDermott and Saipem, obviously have a strong position there. But I see our position improving over time. In a context which is not easy, they are today nine competitors on the LTA for Saudi Aramco, so there is a competition there. It's a tough market, but there is room for us and there is room for delivering good results there all the time.

Mick Pickup
Okay. And can I say thank you for writing that pricing is going up? It made my day. Cheers!

Jean Cahuzac
Thank you.

Operator
Thank you. Our next question comes from the line of Michael Alsford with Citi. Please go ahead. Your line is now open.

Michael Alsford
Thanks for taking my questions. I was just following on that pricing point. I just wondered if you could elaborate a little bit more on kind of where you're seeing it. Is it broad-based? Is it shallow water versus

deeper water projects? And is it – what regions are you particularly seeing that trend happening? And then secondly on your comment around still obviously looking inorganic opportunities where possible, you mentioned that the fleet is pretty fit for purpose. I was just wondering if you could elaborate a little bit more on what types of opportunity you're looking at. Is it very much sort of technology-driven? Is it sort of regionally wanting to be positioned somewhere where you're not? If you could perhaps give a bit more of colour as to what type of options they could be in the future? Thanks.

Jean Cahuzac
Regarding the margins, it's based on two things. It's based on the fact that the overall trend of the market is going in the right direction. But that takes time. It's slow progress. But it is also based on our differentiators. When we are involved early on the FID, when the process of the clients is to go through early engineering, we can propose better solutions at that early stage. And I think it's a win/win between us and the clients in terms of what can be achieved. I would say there is no rule around the world. There is not one area where it would be better than the other. It depends on the projects. But all that comes from differentiators. And it's technology. It's early engineering. It's the trust that the clients have on our ability to deliver projects. All that is going pretty well.

Regarding the fleet, we have invested always – when we look at investment on the fleet, on the high end of the fleet, we are looking at the long term and the decisions are based on how we see the market but also on the technology – the decision to invest on *Seven Vega* was based on our view of long tiebacks of technology that we can propose associated with the vessels in terms of bigger pipe-in-pipe and in terms of electrically heated pipe. So, today, I think we have a state-of-the-art fleet, which allows us to cover all the technical solutions which will be required in the foreseeable future. We had – in an opportunistic way, we bought *Seven Pegasus*, but it was an opportunistic acquisition for a very good vessel. The company was in financial trouble. We had an opportunity to do it. Well, the owner – the previous owner was in financial trouble. We had the opportunity to buy. We always look at these opportunities, but there will be a limited number of such opportunities in the future. So, you can expect low CAPEX in the years to come.

Michael Alsford
Understood. Thank you.

Jean Cahuzac
We could add – sorry, the last one. Technology is absolutely key to everything that we do. On a permanent basis, we're also looking at opportunities to acquire technology. It's usually small investments. But they're the kind of things that we'll look at on an opportunistic basis. But based on our long-term view of where this market is going, there may be some limited investment in this area. But quite important for us to develop our technology.

Michael Alsford
Interesting. Thank you.

Operator
Thank you. Our next question comes from the line of James Thompson from JP Morgan. Please go ahead. Your line is now open.

James Thompson
Good afternoon. Thanks very much for taking my questions. You probably exhausted Q&A on pricing, but that's good to hear as well. So, I just wanted to change tack, if I may, and just ask a little bit about 2019 guidance. Obviously, you've upgraded revenue guidance for the year, but haven't changed the language on adjusted EBITDA for the year. So, I was just really wondering whether the – how we should think about that change. Should we think about consensus EBITDA moving up in lockstep with the revenue guidance? Or should we actually be thinking about consensus EBITDA sort of staying roughly where it is and actually a little bit of margin deflation to run through in 2019? Thanks.

Ricardo Rosa
Yes, James. I think we have indicated that our outlook on revenue for the year is a little more positive than we had said before, and we now see it as being broadly in line with 2018. And our view is that this adjustment to our guidance as an uplift in revenue that we are forecasting does not invalidate the range

of our guidance on adjusted EBITDA. And that's why it's remained unchanged. And that's why it's remained unchanged. And I think there's little to add to that position. I think as clearly improving revenue, in general, is a positive thing. But, as I've said the range for EBITDA is such that you'll have to form your own judgments within that range of where you think we'll land.

James Thompson
Okay. That's good. Thanks very much for that. And then, just sticking on the revenue guidance, if I may, fourth quarter obviously has some uncertainties in it, so should we just be thinking if I'm – on a quarterly step-wise basis that topline Q2/Q3 should be stronger. So, expecting a stronger summer season than consensus is currently thinking, rather than a sort of quarter-by-a quarter increase in revenue?

Jean Cahuzac
We're not really commenting on consensus per quarter. We're looking at the whole year. If we have a problem with consensus on the whole year, we will say it. We don't.

James Thompson
All right. Okay. That's very clear. Thanks very much.

Jean Cahuzac
I think we can take one more question.

Operator
Okay. And our last question comes from the line of Mark Wilson from Jefferies. Please go ahead. Your line is now open.

Mark Wilson
Thank you. I was just wondering with regard to the current backlog and the timeline to the *Seven Vega*, there's a number of electric heat-treated contracts in there. Is that vessel earmarked for any of the current booked work? Or are such contracts still to be won and therefore, some of the pricing affects you speak to can be put against that particular vessel?

John Evans
Mark, to answer your question. The first two projects that we have in the backlog for electrically heated trace flowlines will be done by *Seven Oceans*, our existing vessel. But we have in our technology profile a more efficient ability to install off the *Vega* in due course. So, *Seven Vega* is being bid in the outer period, i.e., from the end of quarter one next year onwards for electrically heated pipeline systems. But we expect to install the first one over this winter.

Jean Cahuzac
I will say, I have no concerns for the utilisation of *Seven Vega* when she comes out of the shipyard. We have good visibility on projects. She will work.

Mark Wilson
Excellent. Thank you.

Jean Cahuzac
Okay. I think we have to stop now. I would like to thank you for your participation in this call and looking forward to the next conversation in our roadshow and that Q2 earnings call. Thank you.