Subsea7 Q2 2024 Results

Thursday, 25th July 2024

Operator: Good day and thank you for standing by. Welcome to the presentation of Subsea7 Q2 2024 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 and 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 and 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.

[00:00:36]

Introduction

Katherine Tonks

Head of Investor Relations, Subsea7

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 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 Subsea7's 2023 Annual Report or today's quarterly press release.

I'll now turn the call over to John.

[00:01:15]

Highlights

John Evans

CEO, Subsea7

Agenda

Thank you, Katherine, and good afternoon, everyone. I will start with a summary of the second quarter before passing over to Mark for more details on the financial results.

Second quarter 2024 – delivering growth

Turning to slide three. Subsea7 delivered a strong second quarter adjusted EBITDA of $292 million, up 80% year-on-year, and with a margin of 17%. We're on track to meet EBITDA guidance which has been revised upwards by 5%.

The second quarter was a record for Subsea7, both in terms of order intake and backlog. The addition of more high-quality projects support our expectations of strong margins in the remainder of 2024 as well as our goal to achieve a margin of 18-20% in 2025 and over 20% in 2026.

Our tendering pipeline in both subsea and wind remains robust, and we're confident in a positive outlook for both businesses.

Order intake momentum remains strong

Turning to slide four. Order intake in the second quarter was $4 billion, reflecting new awards in Brazil, Turkey, UK and the Gulf of Mexico.

Our book-to-bill for the quarter was 2.3 times and 1.7 times for the first half.

Record backlog of high-quality projects

With a high book-to-bill we continue to drive strong growth in our backlog, and at the end of the first half we had $12.5 billion of firm work, a record high.

Record backlog of high-quality projects

Slide six shows the backlog by business units. After recent awards in Subsea and Conventional, including Búzios 9 and four new PLSV contracts, we have good visibility of the years ahead, including $4 billion already secured for 2026 and beyond.

In Renewables, the backlog is roughly flat as we remain selective in our targeting approach to support future margins and returns.

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

[00:03:22]

Financial Review

Mark Foley

CFO, Subsea7

Introduction

Thank you, John, and good afternoon, everyone. I'll 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 2024.

Group results – strong growth in revenue and profitability

Slide seven summarises the Group's second quarter results.

Revenue increased to $1.7 billion, up 15% compared to the second quarter of 2023, largely driven by Subsea and Conventional. Adjusted EBITDA of $292 million was up 80% compared with the prior year, and our margin increased by over 600 basis points to 17%.

Net finance costs of $24 million, a net foreign exchange loss of $8 million and taxation of $41 million resulted in net income of $63 million compared with $14 million in the prior year period.

I'll now discuss the drivers of the Group's performance in the next few slides.

Subsea and Conventional

Slide eight presents the key metrics for Subsea and Conventional. Revenue was $1.4 billion, up 21% year-on-year, reflecting good progress on fabrication of Vigra, Wick, Ubu and Bintan spoolbases as well as the execution of offshore scopes in Guyana, Brazil, Australia and Norway.

Adjusted EBITDA was $247 million, equating to a margin of 17.2%, an increase of approximately 700 basis points from the prior year. This result was underpinned by the continued mix-shift to higher margin projects, high utilisation of the global enabler vessels as well as a $9 million net income contribution from OneSubsea.

Net operating income was $126 million compared to a loss of $10 million in the same quarter last year.

Renewables

Selected renewables performance metrics are shown in slide nine. Revenue was $281 million, broadly flat year-on-year, reflecting ongoing activity installing foundations and transition pieces at Dogger Bank, as well as cable lay projects in the UK and Taiwan and our first turbine installation project in Germany.

Adjusted EBITDA was $38 million, resulting in a margin of 13.6%. We continue to expect the Renewables business unit to generate a double-digit adjusted EBITDA margin in the full year.

Cash balance reconciliation

Slide 10 shows a cash waterfall for the second quarter. Net cash generated by operating activities was $187 million, which included a modest $12 million adverse movement in working capital. Net cash used in investing activities was $202 million, including capital expenditure of $55 million, and the second of two payments for our investment in OneSubsea, amounting to $153 million.

Net cash used in financing activities was $213 million, which included dividend payments of $82 million, share repurchases of $90 million and lease payments of $55 million.

Restricted cash increased by $83 million related to the purchase of African Inspiration, a 250-pound train class construction vessel. The purchase was completed on 18th July and the vessel will be renamed Seven Merlin.

At the end of the quarter, cash and cash equivalents was $290 million and net debt was $1 billion, which included lease liabilities of $533 million.

The Group had liquidity of $1.1 billion at the quarter end, which included $860 million of committed and utilised borrowing facilities. At 24th July, the company had utilised $52 million or 65% of the $80 million allocated to share repurchases as part of our $250 million shareholder returns in 2024.

Group financial guidance

To conclude, slide 11 shows our guidance for the full year. We have raised our expectation for revenue and adjusted EBITDA slightly, as well as reflecting the purchase of Seven Merlin in capital expenditure.

In 2024, we now expect revenue to be in a range between $6.5 million and $6.8 billion, with adjusted EBITDA being between $1 billion and $1.05 billion. This reflects the good progress on our existing portfolio projects.

Our capital expenditure guidance now includes the purchase of Seven Merlin of $83 million. The underlying capital expenditure guidance has not changed.

I will now pass you back to John.

[00:08:42]

Business Overview

John Evans

CEO, Subsea7

Enabling Vessels – success in Guyana

Thank you, Mark. On the next three slides, we have a few highlights from the last quarter, starting on slide 12 with our Gas to Energy project in Guyana. This was our first project in Guyana and involved the fabrication and S-Lay of 119 kilometres of rigid pipeline using Seven Borealis. The pipelay scope was successfully completed 10 days ahead of schedule, and the Seven Borealis is now mobilising to Saudi Arabia for work on Aramco's Zuluf field.

Enabling products – pipeline solutions for Yggdrasil

Slide 13 continues a theme from our recent Investor Day of enabling products, including our range of flowline solutions. As we discussed in June, the Alliance Framework and early engagement with Aker BP allows a very open dialogue about the solutions that could be used to optimise their field developments.

At Vigra, we saw the fabrication of high-performance, corrosion-resistant, rigid pipelines for Yggdrasil. While across the water at Wick in Scotland, our spoolbase is also working on Yggdrasil, fabricating pipeline bundles.

As you can see in the image, these bundles combine several pipes and control lines in a single structure. This highly efficient solution saves vessel days, and simplifies the field infrastructure, and is proprietary to Subsea7.

As we explained in June, these solutions are part of a suite of enabling products and capabilities that keep us at the forefront of the subsea industry. When combined with the benefits of early engagement, they have been key to unlocking reserves and optimising value both to clients and Subsea7.

Enabling vessels – milestones for Seaway Ventus

Turning to slide 14. In March, we took delivery of the Seaway Ventus, our new build turbine installation jacket. And on 2nd July, we completed our inaugural contract of Gode Wind 3 in Germany. After installing the turbines on that project, the Seaway Ventus moved to Borkum Riffgrund 3, where we continue to install project – installation turbines on that project.

This winter, during the off-season, the vessel will be equipped with a gripper to enable monopile installation before it commences foundation installation on East Anglia 3.

Subsea projects

Now on to review of our tendering pipeline on slides 15 and 16.

Bidding for subsea work remains very active and our tenders in-house exceed $21 billion. The outlook for incremental work in Brazil remains very good, with several projects on the bidding horizon, valued at multiple billions. Elsewhere, there's a wide range of small and medium-sized projects in deepwater markets in the US, Gulf of Mexico, West Africa, Turkey and beyond.

Overall, we're confident that we have a strong tendering pipeline that can support continued momentum in our subsea order intake.

Offshore wind prospects

On the next slide, we have our wind prospects. The recent licensing round of in the Netherlands was a success, with two 2-gigawatt developments being awarded to consortiums, including SSE and Vattenfall. For both these clients, we have delivered substantial and similar project scopes recently and have good track record and relationships.

Likewise in Germany, there were two lease awards in June for EnBW and TotalEnergies. So, continental Europe, the market is functioning well with regular bidding and prospects for Seaway 7. In the UK, we're optimistic that the changing government will provide continued support to offshore wind with potentially increased volumes. This is expected to support strong activity in current and future CFD rounds, and we expect Seaway 7 to remain one of the leaders in this market.

Although there is political uncertainty in the US, both Atlantic Shores 1 & 2 and New England 1 & 2, together representing 5.4 gigawatts, have received final governmental approval, and bidding activities for future prospects continue.

Overall, we remain confident that the long-term outlook for offshore wind is strong and that through selected bidding, we can continue to deliver good financial performance in our Renewables business.

Clear strategy to deliver returns

To conclude, we turn to our final slide on page 17. As discussed during our Investor Day last month, we have a strong suite of solutions, vessels and technologies that unlock opportunities for Subsea7 and create high barriers of entry. You heard from Aker BP last month about the benefits of early engagement and alliancing in optimising field development design. This goes hand in hand with the ability of our experienced project teams and crews to deliver complex offshore scopes on-time and on-schedule.

We're very clear that there is an energy transition happening, and we're very much involved in it. Our offshore wind business is profitable and growing, and we have a well-developed strategy to address CCS.

Financial strength starts with good project delivery and good risk management. These are fundamental to delivering profitability and maintain the balance sheet strength that enables us to win super major projects.

Finally, we intend to be a tier one player in subsea and offshore wind in 2030, 2040 and 2050 and beyond. And as part of that goal, we will be considering the long-term reinvestment needs of our fleet. But we're very clear that shareholder returns are a priority and are underpinned by a commitment to return at least $1 billion in 2024-2027 as a minimum.

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

[00:14:42]

Q&A

Operator: Thank you. If you would like to ask a question, you will need to press star, one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star, one and one again. We will now take our first question. First question today is from the line of Guilherme Levy from Morgan Stanley. Please go ahead.

[00:15:06]

Guilherme Levy (Morgan Stanley): Hi, good morning. Thanks for taking my question. The first one on offshore wind, I was wondering if you could say a few words on the competitive environment for the different activities that the company does in this business. If you could say a few words on what you're seeing on cables, foundations and wind turbines. And also into the long term, what type of margin profile should we see in these different segments of the market? That would be great. Thank you.

[00:15:42]

John Evans: I'll ask Stuart to pick up the wind questions.

[00:15:44]

Stuart Fitzgerald: Yeah. So as you know, the segments that we participate in are cables, foundations and turbines. I would say in the cables and foundation segments, we see high barriers to entry, and we see high demand for our services, so active bidding and a relatively tight market, particularly as we head towards 2027, 2028 and beyond.

Turbines, lower barriers to entry, I would say, more speculative capacity coming into the market and, I would say, a less tight market there. As you know, with the Ventus, we've equipped that ship or that vessel to be able to do either foundations or turbines, so we will allocate the ship into the segment where we see the best returns in 2025, that will be foundations. And beyond that, we'll basically go after the segment that provides us the best opportunities.

And then I think on the second point in relation to margin evolution, we're basically seeing margins improving as the quality of the jobs that we take in improves. We're selective in the bidding, making sure we have the right risk profile and the right pricing, so we see an upward trend in margin delivery out of offshore wind.

[00:17:29]

Guilherme Levy: Thank you. A second one, if I may. The company acquired a new vessel for the Subsea & Conventional business recently. I was just wondering if you could also comment on other opportunities that you see to expand the fleet from here. Thanks.

[00:17:46]

John Evans: Well, thank you. We always look at what is out there in the market. We are regular charters of tonnage of this class. 250-tonne construction assets are needed to support our big pipelays.

As we've discussed many times, we are aware of every vessel in the world that can meet our needs. This happened to be a vessel that was owned by a company that was in financial distress. The investment for us is not too dissimilar to the three to four year charter. And we ended up buying the asset for the same amount of money that we would have spent on a charter. That was an opportunity that came our way. But equally, we were in the market for a three-year charter of an asset perhaps of a similar capability as the African Inspiration (which will in the future be called the Seven Merlin).

So it's about keeping a very close eye on what's out there. And when the right opportunity comes, the strength of our balance sheet and our understanding of the market allows us to move relatively quickly. So that's the way to think about it, is the cost of charter versus acquisition in an asset class that we use quite regularly.

[00:19:00]

Guilherme Levy: Perfect, thank you.

[00:19:04]

Operator: Thank you. We'll now take our next question. This is from Christopher Møllerløkken from SpareBank 1 Markets. Please go ahead.

[00:19:16]

Christopher Møllerløkken (SpareBank 1 Markets): Yes, good afternoon. With the acquisition of Seven Merlin, will this result in a release of a chartered vessel, or do you plan to add one additional vessel to your fleet? Thank you.

[00:19:32]

John Evans: At the moment, we have work allocated for the vessel that we've just acquired probably for the next two-and-a-half, three years. So at the moment, we will not be releasing anything that we have on the contract. Again, the flexibility of having quite a bit of chartered tonnage is we can flex up and down, and we also have options on a number of those charters. So we will take it as we see the market, but the acquisition was backed by firm work that we had for the asset.

[00:20:00]

Christopher Møllerløkken: Thank you.

[00:20:02]

Operator: Thank you. We'll now take our next question. This is from Kate O'Sullivan from Citi. Please go ahead.

[00:20:10]

Kate O'Sullivan (Citi): Hi. Thank you for taking my questions. The first one is on the subsea prospect slide. It indicates you've many more significant project opportunities in

Brazil. So just wondering at what point could you see your exposure to Brazil being relatively full, that geographical exposure?

And in terms of capacity to win new awards in Subsea and Conventional of the scale of the recent Brazil awards, could you help me understand how much capacity you have to do this? So do they get added to the back of the queue for 2027 as such?

And related to that, if you could just give an update on outlook for opportunities over the rest of the year for awards? Thank you very much.

[00:20:57]

John Evans: Okay. Yeah, the prospect page that we show in the quarterly earnings release is looking very positive and looking very full. As you quite rightly point out, Petrobras have a large group of projects in the hopper at the moment, and they're in-house for tender, a number of those as we speak.

Again, some of these work sequentially. So as we finish something like Bacalhau, we would be looking to start the new award that we have, Búzios 9. So we need to remember that these projects cover multiple years.

So for us at the moment, we are working our way through how they fit together in our capability and how does it fit in terms of asset allocation inside the Group. So for ourselves, we're in a good dialogue with Petrobras about the timing at which we're doing it, and also we have a supply chain that needs to work behind us. All our competitors also need the same supply chain.

So the timing of how the Búzios 10, 11, Atapu 2, Sépia 2 fit together is probably work in progress for the industry, but again, we are certainly putting our front foot forward there on those opportunities.

I think in terms of between now and the year-end, one comment I'd make, which is quite clear to everybody, is that each quarter goes up and down in terms of volume of work that's coming in. But we again see opportunities for Stuart’s wind business to bring some good quality backlog in before the year-end as well as some further subsea opportunities coming into the market and will be awarded to the market by the end of the year.

So for ourselves, we're reasonably comfortable that we will replenish the work that we burn off this year, and that we will take work in that suits our profiles in the out-years in 2026, 2027, and some of this work will go into 2028 in due course.

[00:22:52]

Kate O'Sullivan: Thank you very much.

[00:22:55]

Operator: Thank you. Then I'll take our next question. This is from Victoria McCulloch from RBC. Please go ahead.

[00:23:03]

Victoria McCulloch (RBC): Hi there. Thanks very much for taking my questions. First one on the Subsea and Conventional business. You talk about this being a mix shift in getting a higher margin sequentially. How much do you consider it to be lower margin work within the portfolio of backlog that the Subsea business is working on?

And second one, maybe a slightly bigger picture for John. What's the biggest challenge in managing this record backlog, and how do you plan to mitigate that for the business on a medium-term basis? Thanks very much.

[00:23:39]

John Evans: So Victoria, I think your second question was one that was asked at the Vigra Investor Day that we did last month. As I mentioned then, I think supply chain – managing a supply chain is very important. And as we answered the question a month ago, we have decades-long relationships with our supply chain. We have long-term relationships with each of these vendors that are important to us. And we also very much bring them involved during the tender, and in the run-up to these tenders, to make sure we understand their capability, their capacity, their ability to meet the specifications. So again, working our supply chain closely with us, having a clear understanding of what drives them and what drives us.

In terms of assets, we own the vast bulk of our assets, so, therefore, that asset allocation of our own fleet is within our gift to do that. So a very strong relationship with a good supply chain is the key. And we continue to find that that long-term investment in relationships and alignment of objectives is what's good for us, and good for our clients, and good for our suppliers.

So for us at the moment, that's how we view the supply chain and the biggest challenge there for us.

Could you just repeat your first question again, please, to make sure I understood it correctly?

[00:24:54]

Victoria McCulloch: Sure. Just on the Subsea and Conventional business, you talk about the mix-shift on moving margins higher. How much of the remaining work in that portfolio do you see as lower margin, or is it simply an evolution of incrementally moving higher?

[00:25:11]

John Evans: Well, just to give you a, sort of, rough indication, out of our $12.5 billion of backlog, only $0.5 billion was awarded to us in 2021 and before that. So again, we're starting now, the vast bulk of our backlog is 2022, 2023, 2024 vintage. And as we've discussed, quarter-on-quarter, the quality gets better as each new slice of work comes in.

[00:25:36]

Victoria McCulloch: Thanks very much.

[00:25:39]

Operator: Thank you. As a reminder, if you would like to ask a question, you'll need to press star, one and one on your telephone and wait for your name to be announced. We will now take our next question. This is from Richard Dawson from Berenberg. Please go ahead.

[00:25:57]

Richard Dawson (Berenberg): Hi, and thank you for taking my questions. Just following up on that margin comment, when you look at the new projects that are coming into your backlog now, and then also the bidding prospects, are you still seeing those margins increasing? Just trying to get a sense of, sort of, how high margins can go, just given obviously guidance of margins above 20% in 2026. Is there still, sort of, further we can go on these new projects?

And there may be just a question on the order intake, obviously very strong for the quarter. Escalations maybe took a bit of a dip lower. I appreciate this has been discussed in prior calls, but if you could maybe give us some sort of colour on what was driving those escalations a bit lower for this quarter? And is that, sort of, a more normal level going forward? Thank you.

[00:26:40]

John Evans: Every bid that we submit is effectively an opportunity for us to understand the pricing in the market, and that's what we do. Every project is looked at individually. We put our margin expectations into every discussion we have with the client, and it allows us to understand where we go.

At the moment, we still are in a place where there's three very large players in this sector, and each of us are taking on substantial volumes of work. So the pricing is strong and good in the market, as we see, and we will continue to explore that.

We've seen a couple of projects recycle, but equally, as you've seen in the first part of this year, some of the projects that were put to recycle are now back with the Subsea Integration Alliance, such as Wisting and Bay du Nord, to again see if we can get those to sanction now with a very firm supplier involvement through the Subsea Integration Alliance.

So I think the answer is every opportunity that we have to understand what our pricing abilities are is what we will do, and we'll continue to do so.

In terms of escalations, escalations is about timing of different projects, different mechanisms we have in contracts to get inflation indices to kick in and such like, and they generally land on the anniversary of different contracts. So I'm not that concerned about it. It'll always be a bit lumpy as to how those come through, and they're generally contractual mechanisms or changes that we agree with clients as we go through.

So, for ourselves, we don't look at that too tightly each quarter because it's just the facts and circumstances of the particular quarter that we're in allows us then to either conclude those escalations or not.

[00:28:23]

Richard Dawson: That's very helpful. Thank you.

[00:28:28]

Operator: Thank you. And just a reminder, if there are any further questions, you'll need to press star, one and one on your keypad. That's star, one and one if there are any further questions.

There are no further questions at this time, so I will hand back to the speakers. Thank you.

[00:28:54]

John Evans: Well, thank you very much. I know today's a very, very busy day with all three of us announcing our figures. But thank you very much for joining Subsea7 for our Q2. Most of you also joined us at our Investor Day last month, so thank you again for making the time to join us. That was an exciting and interesting day for all of us to share our plans and what we can deliver for this market.

We will again talk to you in Q3 and give you an update of how we're seeing both our markets, which we see as being very strong, continue to develop. So hopefully you have some time off this summer, and we'll talk again in our Q3 figures.

Thank you very much.

[00:29:37]

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please stand by.

[END OF TRANSCRIPT]