Subsea 7 S.A. Release of Q3 2018
Transcript

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Speakers:

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

Isabel Green
Welcome everyone to our third 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 start the call, I'd just like to turn to slide two and remind you that we may include forward-looking statements which reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording is also included on our press release. And with that, I will now turn the call over to Jean.

Jean Cahuzac
Good afternoon everybody. I would like to welcome you to our off-third quarter revenue conference call today. I will begin with our quarter highlights, Ricardo will present our third quarter financial results and I will then conclude with an update on our renewable strategy and business outlook.

Beginning on slide four, revenue for the quarter was $1.1 billion, slightly higher than the prior period. The marginal increase was mostly due to higher offshore activity in the quarter, led by SURF operations offshore Egypt and Australia. We reported an adjusted EBITDA of $217 million, 13% lower than the prior year, resulting in an EBITDA percentage margin of 20%. The reduction from the prior year was mostly a reflection of lower pricing on projects awarded in the downturn. Our diluted earnings per share for the quarter was $0.23.

We achieved total utilisation of 85%, our highest quarter since 2014. The third quarter is usually our busiest operationally, due to favourable weather conditions in the North Sea. However, the weather offshore Germany has been more challenging than expected, causing some delays on the Borkum II wind farm project. We announced four awards in the quarter resulting in $800 million of awards and escalations, and book-to-bill ratio of 0.7.

Turning to slide five to look at some highlights from our current projects and operations. The West Nile Delta phase II GFR project offshore Egypt achieved successful key project milestones with the completion of 2 24-inch pipelines by Seven Borealis and onshore umbilical installations. Seven Seas, Seven Pacific and Seven Eagle have finished their campaigns with only Simar Esperanca remaining in country to complete her scope.

In Australia, the Cooper Sole project has commenced its offshore phase with Seven Oceans transporting 64 kilometres of 12-inch pipeline. Skandi Acergy will install the associated umbilical later in the year.

The Greater Western Flank project, also in Australia, made good progress too. We announced the award of the Aerfugl project offshore Norway late last year and also offshore operation do not start till 2019, good progress has been made in upgrading our Vigra spool base to accommodate electrically heat-traced flow lines – one of the new technologies developed by Subsea 7. As you can see on the slide, trials are underway for transporting next year.

In the Middle East we have numerous operations ongoing in the quarter. Executing several projects in one location allows for operational optimisation of assets, including installation vessels, cable barge, tugs, survey vessels and supply boats. In the third quarter, Seven Champion continued to lay pipe on the Hasbah project, and on the slide we can see a joint of a large 36-inch pipeline being welded.

In West Africa, activity has started to increase. In Nigeria, Seven Antares was working on the conventional PUPP project for Exxon Mobil. This project was awarded at the start of the second quarter. It shows how the delay between award and execution for some conventional work can be relatively short. In Angola, engineering and procurement activities are ongoing on the Zinia project for Total.

The four PLSVs working on long-term contract with Petrobras offshore Brazil achieved high levels of utilisation in the quarter. We are continually working to increase the efficiency of our PLSV service for Petrobras. At the moment we are focusing our engineering expertise on automating flexible and umbilical hangs-off design and installation procedures. Our lowest specification PLSV in Brazil, Seven Phoenix, left the region in mid-August, and completed an 11-year campaign. The vessel was stacked at the start of the first quarter as there is currently no work planned for it in 2019.

Offshore Germany, the EPCI Borkum II project continued with monopile installation, but progress was hampered by adverse weather. 17 of the 32 pipes were installed in the quarter with 7 Borealis intervening after the quarter end to accelerate operations and mitigate the impact of challenging weather conditions. This is a very good example of the versatility of the fleet between SURF and Renewables business units, which is one of our competitive advantages.

Offshore UK, the final six jackets and 33 internal array cables were installed on the Beatrice windfarm project which was substantially completed in a year. Commercial discussions with our client on this project have also been successfully completed.

Within our i-Tech Services business unit, good progress was made in the quarter on our Life-of-Field contract in the North Sea and offshore Azerbaijan. One of our technology focus areas is on autonomy and remove ROV operations. Our new onshore pilot centres will be soon operational in Stavanger and Aberdeen. This will enable offshore ROV operation to be piloted by onshore personnel. It will not only have a significant impact on cost reductions for our clients, it's also one of the key components of our sustainability programme which aims at reducing emissions and the potential impact of offshore operation on climate change.

Moving onto slide six, at the end of September our order backlog was $5.1 billion, net of any adverse foreign exchange movement of approximately $50 million in the quarter. Our book-to-bill ratio was 0.7 in the third quarter and 1 for the first nine months, driven mainly by an increase in service awards. We have executed over $3.1 billion of work year to date and have good visibility for the remainder of the year with $1 billion of work within our backlog expected to be recognised as revenue in the fourth quarter 2018. We have $2.2 billion in our backlog for 2019, which covers approximately 60% of the consensus expectations. This level of coverage is relatively low compared to the historical average, but the expected rate of new awards to market and a strong competitive offering give us confidence that market expectations are achievable.

The four new projects announced in the third quarter illustrate the wide range of solutions that Subsea 7 can provide to its clients. The Buzzard Phase Two project, a bundled solution offshore UK was awarded by Nexen. Also off the coast of the UK, the Triton Knoll windfarm project was awarded to Subsea 7's Renewable and Heavy Lifting business unit. We have also announced the award of a substantial conventional project; however, due to contractual obligation we are unable to share any further details on the award at this time.

And finally, our subsea integration alliance with OneSubsea was awarded another integrated project during the quarter, the Katmai project in the US Gulf of Mexico by Fieldwood Energy. We continue to see an increased interest from customers for early engagement and integrated solutions and our alliance with OneSubsea continues to deliver this. The formation of an integrated joint venture with OneSubsea is progressing and we aim to have this operational in the first part of 2019.

Ricardo Rosa
Thank you Jean and good afternoon everyone. I will begin on slide seven with the key highlights from our income statement. Third quarter revenue of $1.1 billion was $19 million higher than the prior year period, with increased revenue from SURF activity offsetting a reduction in revenue from i-Tech Services and Renewables and Heavy Lifting. Adjusted EBITDA was $217 million compared to $250 million in the prior year period. Adjusted EBITDA margin was 28%, down 4 percentage points year on year, an improvement compared to the second quarter with more favourable phasing on certain projects and higher vessel utilisation.

Net operating income for the quarter was $111 million; it decreased in all three operational business units reflecting lower pricing on projects awarded in the downturn and fewer projects in the final stages of completion. There was less than $1 million impact from currency movements in the quarter and no material income or loss contributed by our joint ventures and associates. The tax charge for the quarter was $34 million, implying an effective tax rate of 31%. Net income was $76 million. Value to earnings per share was $0.23, 32% lower than the prior year period.

Slide eight shows the revenue and net operating income by business unit. Our SURF and conventional business unit generated revenue of $865 million, up 15% on the prior year period, reflecting the increased activity from SURF projects as the market starts to gradually recover. This was led by recent awards in the North Sea and improved utilisation of our diving fleet. We also saw increased contribution from conventional projects with the start of the offshore campaign on the PUPP project offshore Nigeria. Net operating income was $93 million, down 10% year on year, reflecting the impact of lower pricing on awards signed in the downturn and the phasing of projects.

Our i-Tech Services business unit generated $66 million revenue and $4 million in net operating income. Lower activity levels compared to the prior year period were due to the impact of worldwide decline in active rigs on the drilling ROV business, partly offset by an increase in inspection, repair and maintenance activity. Our Life-of-Field vessels capacity is closely aligned with the market demand, helped by favourable terms available for new short-term charters.

Renewables and Heavy Lifting revenue decreased to $152 million from $232 million in the prior year period, as the Beatrice project was substantially completed in the quarter. Net operating income was $17 million which included allowances for additional weather-related installation delays on the Borkum II contract. This adversely impacted profitability of the project and the business unit in the quarter. A $3 million loss was reported in the corporate business unit.

I will now turn to slide nine which provides an overview of cash movements in the quarter. Cash and equivalents was $732 million at the end of September, an increase of $118 million on the positon at the end of June. As anticipated, our working capital position stabilised in the third quarter. We generated $190 million in net cash from operations, after deducting a small decrease in net operating liabilities of $8 million.

Capital expenditure of $74 million included a milestone payment of approximately $50 million relating to Seven Vega, our new reel pipe-lay vessel which is under construction. The vessel is due for delivery early in 2020 in time to meet the increased demand for reeled pipe-lay campaigns already booked in our backlog.

Our financial and liquidity positons remain strong. At the end of September, we had net cash of $468 million and a further $656 million of undrawn committed credit facilities. Our priority for cash is to invest in growing and strengthening our business and maintain an investment-grade credit profile. Any surplus cash will be returned to shareholders in the form of dividends and buybacks. Our $200 million share repurchase programme has $133 million remaining to execute and is valid until July 2019.

Slide ten shows the expected impact of the new accounting standard IFRS 16 on 2019's financial statements. This guidance is our best current estimate of the impact, but because its implementation is subject to changes in the composition of our lease commitments, actual results may differ from the details shown here. The purpose of IFRS 16 is to bring long-term lease liabilities onto the balance sheet and distinguish between the operational and financial elements of the lease expense in the net income statement. It applies to leases with a term of over 12 months, which, for Subsea 7, comprise approximately 85% of the annual lease expense. Vessel charters are the main component of the annual lease expense, representing approximately 75% of the total. Based on our preliminary analysis of the standard, we anticipate a reduction in our 2019 lease expense of between $100 million and $110 million. Our adjusted EBIDTA will therefore increase by the same amount. In effect, the lease expense will be replaced by an amortisation charge relating to the capitalised leases that we estimate will be between $90 million and $100 million, and a finance charge that will be between $20 million and $25 million. As a result, our net operating income is forecast to increase by between $10 million and $15 million. Net income, however, is expected to decrease by approximately $10 million. This is due to an earlier recognition of the finance costs embedded within existing leases.

On the balance sheet, there will be right-of-use asset created with a value between $350 million and $450 million, and a corresponding lease liability of the same amount. IFRS 16 will have no impact on underlying cash flows. As we expect analysts to reflect this guidance in their models, we have given our 2019 guidance including the estimated IFRS 16 adjustments. The new standard will be implemented from 1st January 2019 and will only impact results from 2019 onward. 2018 will not be affected and we will not be restating past results or comparatives.

With that in mind, I move now to our guidance, which is summarised on slide 11. For 2018 we continue to expect revenue to be broadly in line with the revenue reported in 2017. An adjusted EBITDA margin is expected to be significantly lower year on year. Administrative expense guidance is still expected to be between $260 million and $280 million. We still forecast net finance cost to be less than $5 million. Our range for depreciation and amortisation has been narrowed to between $430 million and $440 million. We have raised our full year effective tax rate by one percentage point to reflect changes in the expected geographic mix of our sources of income. We now expect to fall in the range of 26-28%. Our capital expenditure guidance for the year is unchanged with between $250 million and $280 million forecast, including expenditures relating to our new build vessel.

We have $2.2 billion of work in our backlog for execution in 2019, which is approximately $400 million lower than the year-ahead outlook this time last year. Although awards to market are increasing, we expect our revenue in 2019 to be slightly lower than our forecast revenue for 2018 due to a reduction in our Renewables and Heavy Lifting activity. We expect absolute adjusted EBIDTA to be lower than 2018, inclusive of the uplift of between $100 million and $110 million applied to 2019 as a result of the implementation of IFRS 16. The forecast reduced adjusted EBITDA reflects the impact of lower pricing on projects signed in the downturn and minimal contribution from Renewables and Heavy Lifting, following completion of the Beatrice and Borkum II projects. Nevertheless, as a group we still expect to achieve double-digit adjusted EBITDA percentage margin and positive net operating income.

2017 was the low point in order intake for Subsea 7 in this prolonged downturn and since then, there has been a significant increase in SURF awards as the market has begun to recover. Our projects can take one to two years of engineering and planning before offshore construction commences, so there is normally a delay between the date of contract awards and recovery of revenue and earnings. Projects already awarded and tenders we are working on today give us confidence that 2019 will be the trough year for revenue and profitability, with a recovery expected to start in 2020.

Jean Cahuzac
Thank you Ricardo. Turning to slide 12, I would like now to provide further insight into our Renewables and Heavy Lifting business. Offshore wind projects follow similar contracting models as the oil and gas industry. Most contracts can be categorised as either an engineering, procurement, construction and installation contract – EPCI – or a transport and installation contract –T&I. Historically, the predominant model has been T&I but we expect to see more EPCI contracts in the future.

This quarter, the Beatrice project was substantially completed. This multi-year EPCI project was the largest to be executed in the North Sea by Subsea 7 at over $1 billion. Its success was confirmed by our clients, achieving first power as scheduled in July. We hear from our clients that our ability to project, manage and de-risk these large projects while ensuring on-time delivery is one of the key differentiators of Subsea 7 in the renewable market.

The outlook for 2019 is challenging. For various reasons, large project awards to market have been delayed and we do not currently expect to be active offshore on any large EPCI renewable project next year. There are some prospects next year for T&I projects but we are forecasting much lower revenues compared to recent years and lower EBIDTA.

As we have shown previously in our oil and gas business, we are proactive and plan to reduce our capacity in renewables to adapt to these near-term market conditions. Capacity and cost reduction will be achieved while protecting our capability and expertise. This approach will position our renewable business well to capture opportunities when the activity increases in the not-too-distant future. And I remain optimistic regarding medium- and long-term prospects are we are seeing momentum on projects – in particular the UK, France and Taiwan. In our business model, we anticipate starting one large EPCI project every couple of years. The composition of our reported revenues and profits will fluctuate depending on the type of work we are executing. New EPCI awards won in 2019 are likely to be executed offshore before second half of 2020.

Moving onto slide 13, the offshore wind market is growing at a healthy pace with double-digit average growth forecast to Europe and worldwide, supported by the lower levelized cost of energy. The seven megawatts wind turbine generator which is a size we installed on the Beatrice field, will be superseded by 10 megawatt turbine that will be available to market in a few years, and even larger turbines are under development. Larger turbine sizes require larger foundations. With a top-lifting capacity of 5,000 tonne, our fleet is well positioned to take advantage of the enlarged scale as these turbine foundations, differentiating Subsea 7 from our competitors.

I will conclude with a review of our outlook. We have seen continued momentum in tie-back projects being awarded to the markets throughout 2018. Volume is recovering and we expect this trend to continue in the years to come. Looking into 2019, larger greenfield market awards are expected to compliment this brownfield development projects. Improved utilisation will follow 12 to 24 months after these awards when the offshore phase is commenced, which will translate into pricing and margin improvements.

In SURF we have greater visibility on the timing of greenfield awards as invitations to tender are received. Expected awards to market includes Mero, Sepia and Buzios project offshore Brazil, Golfinho and Rovuma project offshore Mozambique and the Bonga Southwest project offshore Nigeria. We also expect award to market of some last tie-back projects in 2019, including the Ichthys 2, Scarborough and Julimar project offshore Australia. We anticipate the next tranche of conventional projects offshore Saudi Arabia to be awarded to the market in the next two quarters.

In i-Tech services, the level of tendering has increased for both IRM and ROV services and the outlook for utilisation for 2019 is improving. However, nearer-term activity and pricing remains relatively low.

To summarise, Subsea 7 is well positioned for the cyclical recovery of the offshore oil and gas market later in 2019 and for the structural growth in offshore renewables. We provide our clients with first class early engagement and engineering to enable them to take profitable investment decision. We have successful alliance and partnership to enable us to win more work on the negotiated basis. And our best top technology and efficient cost base enable us to be competitively and win our fair share of market awards.

Q & A

James Evans
Good afternoon and thanks for taking my questions. Jean, thanks for the update on your offshore wind strategy. Obviously, you talked about pricing being under pressure, particularly, in the SURF side. Just wondered how you see things developing actually on the renewable side, given the low activity? It seems like some of your Dutch competitors has been relatively aggressive so far. So should we think about pricing also being a little bit trickier when we get these awards first coming through?

And second one for Ricardo. Construction assets on the balance sheet ticked up quite high in the quarter, and is now the highest relative to revenue, I think, in the last five or six years, certainly, since post-merger when you've been disclosing it. Can you just talk a little about what's driving that? Can you give us any comfort? Obviously, it's not a number that we like to see ticking up on EPC companies in general. So, if any comfort you give there would be great. Thanks.

Jean Cahuzac
Well, thanks, James. To answer your question on renewable, as we said, I mean, 2019 will be a transition year and there may be some pressure on T&I tenders initially. But while the markets see more projects being awarded to the industry, I'm confident that we're going to see the same thing as we see on the surf side, which is a gradual improvement over time.

Ricardo Rosa
Yes, James, as far as our receivables position is concerned, your analysis is correct. We believe our receivables position is higher than we believe it should be, with the year-to-day position up about $390 million per my calculations. However, the rate of growth in receivables has slowed significantly in the third quarter, and we are very much focused on reversing it in the fourth quarter, such that we aim to swing back into a net operating liability position by yearend.

A little additional colour on that is that we are – it's the growth in the receivables is driven in part by our operations in the Middle East, where payment terms are somewhat different to those that have been traditionally associate with Subsea 7. And furthermore, we've also had – it's a temporary junction that we've had some – the timing of certain milestone payments, in particularly, on new projects in West Africa have resulted in a short-term growth in receivables. So, we remain focused on improving the situation and confident that we'll get there.

Rob Pulleyn
Good afternoon, gentlemen. A few question, if I may? First one, if I could follow up on your comment on SURF pricing. You said it's still under pressure which makes sense given the worst downturn in the industry we've experienced. But may I ask, the margin, is it still getting worse? Is it getting marginally better? Or is it kind of just about the same as it has been for the last few quarters?

The second one if I can have a go at is vessel utilisation. Obviously, very good in 3Q for the reasons you highlighted. Would you be able to give us a little bit of colour as to how the fleet cover and fleet utilisation will look next year in light of your guidance?

And then lastly, if I could just ask on the issue of tie-backs, obviously, the ones not awarded. How much visibility do you have on when they're actually going to come? I understand the greenfields, these tenders come out a long time in advance, but are these tie-backs also a long time in advance or are they relatively short notice, as it were? If you can add some colour on that, that'd be fantastic. Thank you.

Jean Cahuzac
I would take the first question, I will let John answer to the two other questions. What we are expecting on the margin is fully in line with what we said previously. I mean, to have the margin improving we need to see an increase of number of projects to come to market. We are seeing that in tie-backs. We expect that to continue on the tie-backs. We have more visibility on the greenfield. So, when the greenfields are awarded to market, and we expect more of these projects being awarded in 2019, we will see an improvement of the margin.

I would say overall the trend is going the right direction. We need more markets award to accelerate the trend of improvement of margin but it's going in the right direction.

John Evans
Rob, I guess, on the fleet we are looking to use the same fleet in 2019 as we used in 2018, bar the adjustments for the PLSVs that we retired out of Brazil as their contracts came to a close. In renewables, we will look at the fleet size in quarter one, depending on how much short-term T&I work we pick up, particularly on the heavy lifting side there. We may stack one of the assets, depending on near-term work load in 2019. But otherwise the rest of the fleet will be pretty much in line where we're at.

Your other question then was the sort of, timing at which tie-backs come in. Yes, tie-backs can move quickly. You were seeing that we liquidated the Lomond project for Chrysaor which was blocked pipeline in the North Sea. We moved very quickly to do that. So, there is the ability to move quickly but again, it's the need of the clients and the speed at which the clients get their projects to us or to the market for us to decide how quickly we can move.

Jean Cahuzac
And I will say, John, that we also have an announced visibility as we see more and more early engagement with our clients on the engineering side of some of these tie-backs, which again positions us very well in terms of scheduling the work and assigning the right resources.

Rob Pulleyn
That's very interesting guys. And apologies, if I can just ask one more follow up and that's linking into the guidance. Are you starting to see any cost inflation in your cost lines, whether it be wages or in the procurement items? Just trying to understand the supply chain beneath you guys. Thank you.

Jean Cahuzac
I think regarding our cost structure, I think we are controlling our cost with the approach that we've taken over the last year. It's a combination of being very cost-focused and continuous improvement of the way of working, which lower our overall cost for the projects. We still seeing significant improvement in this area.

In terms of the cost of the supply chain, no doubt that our suppliers are seeing the same thing as we see, which is this trend going in the right direction post-2019 so we are seeing some pressure on the cost. But I would say that for the time being, it's limited but it's something that we are monitoring closely and take into account in our tenders.

Michael Rae
Yeah, hi there. Two questions on renewables if I could? The first is just, what's the expected cost that the capacity reduction in that division, both in cash terms and if there are going to be any right-downs there? And then second, can you just give a bit more detail on Borkum II? What's actually going on? How's the

progress? Is it just a temporary delay? Or has the whole schedule been thrown out? And are we going to be hearing about this project for the next few quarters? When do you expect it to be complete? Thank you.

John Evans
I'll take both. I guess, Michael, we don't disclose our costings of our asset base and such like, and we addressed our costs accordingly to the workload that we see. And as I said, we'll make those decisions once the workload next year becomes clear.

Borkum is an EPCI contract in Germany, in shallow water in Germany. The engineering is complete, the procurement is complete and there are 32 monopiles and transition pieces to install. We have, as of midnight last night, installed 26 monopiles. The main issue is the weather. The weather is leading towards finding it very slow progress so we've also taken the Borealis out there, so we have two big large, heavy-lift vessels, that can not only, one, put the pile in but the other one can put the transition piece in. We do expect to be complete at the end of the fourth quarter but we are at the mercy of a deteriorating weather window. So, generally, we can put a pile in every day and we can put a transition piece in every day. So, when the weather window's opened up we are there and that's the reason we increase the fleet size so when the weather windows come. So we would expect by the time we release our quarter four figures, hopefully, to have this project behind us.

Michael Rae
Okay, okay, that's clear and just to go back on the capacity reduction. It's just that if this happened in the SURF side of the business, which is obviously much larger, it feels like you would get quite a lot of granularity in terms of headcount reduction and so on. But should I interpret what you're saying as it's not really big enough for that, it's not material, it's not really big enough for us to put in the model, etc., the cash cost?

John Evans
Yeah, I think, this is a discussion purely about the renewables and heavy lift business. We did our adjustments, as you well know, to the SURF business a long time ago. I think it's just too early to call it at this stage. Our message, I think, is that, as you know, we adjust to market trends and we will adjust accordingly at the right time.

Jean Cahuzac
And the approach that we are taking in SURF has proven to be quite effective during the downturn, which is to adjust capacity, keep expertise. We are not going to change our overall strategy.

Kevin Roger
Hi, good afternoon, thanks for taking the question. First, very quickly, a clarification. Jean, the beginning of the conference, you say that on Beatrice, the commercial discussion with client has been completed. Does it mean that you get variation order this quarter that offsets the potential loss on Borkum?

And the second question related. If we move outside the renewable and that we focus ourselves on your traditional activity, the SURF and conventional, it seems that, basically, you expect an increase in your revenue for 2019 compared to 2018? I was wondering if you can give some granularity regarding your net operating income for the 2019 compared to 2018, just looking at this business line.

Jean Cahuzac
Yeah, I mean, to answer your first question, I mean, Q3 has included the successful negotiation of the offer for Beatrice and the impact for Q3 of the Borkum project, so it's combination of the two. Regarding the question on 2019, Ricardo?

Ricardo Rosa
If you read our press release closely and my initial prepared comments, I think, we've given a very significant guidance about where we expect net operating income to land in 2019. And given the relative size that we expect of SURF versus the other business units, I think, you can assume that it's the main driver of profitability next year.

Amy Wong
Two questions from me, please. The first one relates to quite a better confidence level around that margin improvement from – and kind of growth in the service business from 2020 onwards, based on the kind of tendering activity you're seeing now and into 2019. But realistically, there is still quite a bit of excess

capacity out there in the market. So how can you be so confident that some of the work that will be executed in the 2020/2021 will have higher margins than where we are now for that margin recovery to kick in?

And my second question just relates to a bit of housekeeping, going back to Beatrice. You were saying that the variation order was successfully negotiated in the third quarter. Are there any other related like warranty periods of contingency that we expect to see release on Beatrice after this? Thank you.

John Evans
If I do Beatrice first, Amy. Yes, we are physically complete offshore. We have some minor punch list items which we've agreed with the client that we will sort out in quarter two next year when the weather starts again to be suitable. That doesn't need any of the big heavy construction vessels, just crew boats to do some minor punch list items. So, there is nothing substantial left to do on Beatrice as we stand here today.

Jean Cahuzac
Yes, and I would comment, I mean, regarding our expected improvement of margin over time post-2019 is based on what we mentioned before. It's a combination of the existing ongoing work and growing work on the tie-backs, the pickup of the conventional in particular in Africa, with sustained operation – or increasing operation in Middle East. And a number of projects, of Greenfield projects, which will be in execution in 2021/2022, in our view, from what we know of the market here.

When we look at the activity and the projects in 2021/2022, I would be more optimistic than you are about the situation of demand and supply. I think there will be a lot of activity there, and not so many companies which can actually do it. And even from a fleet utilisation perspective on the enabling asset, we see more activity, definitely more activity in these years after 2020.

Amy Wong
Just to follow up on that last point, though, does it sound like you're going to be gaining a bit more share on that kind of top tier global kind of work? Should we interpret it that way?

Jean Cahuzac
No, I would say that, we are quite competitive in all types of work. We can cover all the range of technology, as you know. And there are a number of factors. When you look at some of the differentiators of Subsea 7, which relates to the early engagement, where we see a growing trend of early engagement, the success that we are having on small projects, but there will be bigger projects to come with the alliance with OneSubsea, and the technology that we are introducing, I think we have some differentiators which will allow us to win a good share of the market. And we have decreased our cost base in the past year, which also positions us very well.

Haakon Amundsen
Yeah. Thank you, guys, and thanks for the specifics on 2019. I have two questions, please. One is, if it's possible to give some colour on the negative impact from Borkum II in this quarter to try to assess what the kind of underlying margin level on Beatrice has been, if that's possible.

My second question is on your outlook and someone has touched upon this earlier as well, but when we think about this potential improvement in financial performance in 2020, you are mentioning improved vessel utilisation. Do you also expect that kind of pricing on new projects and new awards will come rapid enough to have a positive impact on 2020? Or will it simply be an utilisation issue? Thanks.

Jean Cahuzac
Well, on the second point, I mean, look, it's a bit premature to actually be very specific on 2020. We are just at the end of 2018, so there is going to be some variation on the exact timing. I think the confidence is a trend that we are describing, that 2021/2022, it can happen a bit – I mean, there could be a couple of months of variation on when it happens, so I won't be more specific than that.

Regarding the impact of the project in renewables in Q4, we are not giving specific information on projects. I would just say that we said that the guidance is unchanged for the full year 2018 revenue and adjusted EBITDA percent margin for the group, so that will give you an idea of where we will be.

Haakon Amundsen
Yeah. I was thinking a little bit more on how the negative impact from Borkum II has been in Q3, so that we can try to gauge the underlying profitability on Beatrice in the quarter.

Jean Cahuzac
Yeah, I'm afraid we don't comment on specific projects.

Guillaume Delaby
Yes, good afternoon, thank you for taking my question. Maybe a question for maybe Jean or John basically on the competitive landscape. When I look at the SURF-only awards since the beginning of the year, basically according to Wood Mackenzie data, you got six out of the 12 large SURF-only projects. So clearly you are gaining market share. My question is, do you see some of your competitors, for example, TechnipFMC, do you see some of your competitors may be being less aggressive in terms of pricing for SURF-only projects? Maybe they try to concentrate on other types of projects. So if you could have maybe some – provide some colour about the dynamics, the competitive dynamics in SURF-only contracts?

Jean Cahuzac
Well, what I would like to say is that for me, we are definitely very competitive for the reason that I mentioned. Comparing with the Tier 1 project, we will win our share of market. What we decide on any specific project and what the competition decides on any specific project is part of the medium-term strategy, and they can be more aggressive or less aggressive depending upon the timing of the project and where the project is. When I look at it from an overall – when I look at it over a long period, I'm confident that we will win a good share of the projects. That doesn't mean that we will win all projects, obviously. So we try to – we try to balance our risks between geographic area, type of vessel, etc., and the competition is doing the same. But I would say there is a good discipline in terms of the approach from our main competitors, and that's encouraging for the longer term. And the risk profile of the project and the margins that the industry can expect.

Guillaume Delaby
And if I can just follow up, this good discipline, is it something new? Or maybe was it already the case, I would say, six or nine months ago?

Jean Cahuzac
I'm just saying where I am. I think we are seeing today – I think the industry has a time view of what's going to happen in the coming years, and I think we have a consistent approach, more or less. But I cannot really comment on any specifics of our competitors one by one.

John Evans
As you said, Jean, it all starts with the flow of the large greenfield projects, which then takes up utilisation, which then allows the margins to adjust. So the discussion for each contractor or each project has to go through those cycles with a view to how does it fit with the utilisations, and then from there then, the margin moves.

Jean Cahuzac
When we bid the project, we bid a project with the risk off profile which is in line with our approach that we are confident with, and then we haven't changed that. We'll continue to manage the risk in a prudent way.

Frederik Lunde
Good afternoon. I was wondering if you could help – give me some impression of how to think about CAPEX going forward.

Ricardo Rosa
Yes, Frederik, good afternoon. This is Ricardo. Your question is very straightforward. I think we've given guidance on CAPEX this year of about $250-$280 million inclusive of the Vega. This is significantly below our depreciation run rate, which is in excess of $400 million, and we guided to about $420 million. And for the foreseeable future, we don't expect to see a change in that trend. We had a very intensive capital expenditure programme back in 2012, 2013, 2014. I think we are obviously going to continue investing in our fleet and in our assets, but it is going to be a function of the growth in activity and making sure that we have filled any gaps in our technical offering. So, I think it's fair to assume that we will continue to spend on CAPEX, but at a level that is inferior to the level of depreciation that we are incurring at the moment.

Frederik Lunde
So we should expect the medium-term to be about harvesting on investments and the technology and the M&A you already made? There's no sort of big leap changes here on the horizon?

Ricardo Rosa
I think that's a reasonable assumption, Frederik. Yes. I mean, by harvesting – yes, I mean, let's be clear. It's not extreme harvesting. We will continue to reinvest in the business to maintain our competitiveness, whether it's in technology or appropriate assets.

John Evans
And I think the other thing Ricardo, which I think we've mentioned on these calls before, a lot of the towers and installation equipment on chartered tonnage that were returned two years ago, all of those are owned by Subsea 7. They are in storage, they have been maintained. So if the market moves very quickly, we can bring other capacity in by just chartering tonnage out of the market on short-term and putting our equipment on. So, again, in terms of the very large capital expenditures to build from new capability, we don't foresee that in the near term.

Jean Cahuzac
When you look at our fleet, beginning of 2020 when the Vega is delivered, the average age of the fleet is in the range of 10 years, so it's one of the most modern fleets in the industry, perfectly suited for the upturn that we foresee in post-2019.

Frederik Lunde
And just one quick question on utilisation. It was very high in the quarter, and normally this is an utilisation you would associate with strong pricing power. So, have you seen any examples on the spot market, or is this just good planning? Because there you have much higher utilisation than some of your competitors.

John Evans
Well, Frederick, our model was, when we adjusted the size of the fleet, we wanted that fleet to be busy. That was the aim of the exercise, when we had to tailor the fleet that we thought to what we had. But as Jean and Ricardo have talked about, the pricing in the market is driven by the market. And so, we've got a good utilisation, but the pricing was what the market drove at the time.

Michael Alsford
I've got two, please. Firstly, you mentioned in your prepared remarks around the progress on the JV with Schlumberger moving forwards. And since that was announced, there's been fairly – your competitors have moved as well, and looked to enhance their product offering. So I've just wondered whether your thoughts around how that JV is structured has changed at all in terms of personnel, but also technology offering that that JV would provide.

And just secondly, we've obviously talked a little bit about the vessel utilisation in the quarter, but if you look back at 1Q of this year, vessel utilisation was really low, given the sort of the seasonal impact of North Sea work. And I just wondered if you could give us some sense as to how bad could it be in 4Q and 1Q, given that environment and given where we are in terms of utilisation levels across the industry. Thank you.

Jean Cahuzac
I take your first question and John will answer the second. I mean, regarding the JV, I mean, no change in the approach. It's taking a bit more time than we thought because of some, I would say, technical structure, administrative, tax issue that we are presently solving. No big concern there. I think what is quite positive is that the alliance has remained very effective, and the fact that it took a bit more time than we thought to put the JV has by no means created problems or limited what we could do. It will be put in place.

John Evans
In terms of seasonality, Michael, normally our quarter four, quarter one of the lowest seasonality periods for us. The weather we've discussed that is impacting the industry at the moment in the North Sea, in particular, means that spot work is being delayed by certain clients. With the DSVs we have, most of those are working at the moment. So, what you normally see in quarter four is that clients see opportunities where the weather is reasonably okay and they might get some inspection, repair and maintenance work done. The big greenfield and the big CAPEX contracts are all behind everybody for the year. So I think we'll see a seasonality like we've normally seen, which is quarter four and quarter one being relatively quiet.

James Thompson
Great, thank you very much, and thank you for taking my questions. I've got three, if that's okay. Just firstly, in terms of the longer-term outlook, you've talked about it improving. I just wondered, on a vessel basis, just in terms of pipe lay versus heavy lift, where do you sort of expect the market to improve first? Do you expect heavy lift to come tighter ahead of pipe lay? Or is it pretty similar in the early part of the next decade?

Then, two questions really, or one question on guidance, another one on consensus. Firstly, thank you very much for giving us what I think is a range on 2019 guidance. I'd just be interested to know between our upper end and lower end, what are the kind of key drivers next year to look out for in terms of hitting either of those?

And then, finally, in terms of consensus, putting aside actual numbers for one moment and going back, I suppose, to Amy's earlier question, consensus is calling for about a 25% uplift in EBITDA 2020 over 2019. I just wondered if that sort of rate of recovery was something that you were comfortable with at this stage. Thanks.

Jean Cahuzac
Yeah. I'm going to take the last question and we'll – I mean, definitely premature to give any indication in 2020 and the value of EBITDA. When we have more visibility, we'll be more specific, but it's a bit too early. You want to take the first question?

John Evans
Yeah. There was a question there, I think, James, on the question about which will come back sooner rather than later. Well, I guess we see a more solid pipeline of SURF-related type projects through the early engagement that we do, and the discussions that we're having with clients. As we've mentioned many times, renewables is quite a lumpy business. These are quite large transactions which have a lot of local politics and permitting issues to get through, so they are quite lumpy. And we are also seeing opportunities in the US and Taiwan opening up, but again, at the speed at which these new markets are opening up. So, the view we have is that SURF has some clarity as towards its recovery. And renewables, we do see that there are opportunities for an EPIC award next year for work in 2020 and 2021.

Ricardo Rosa
Yeah. Certainly. James, I think, our guidance for 2019 is founded on a number of underlying drivers, which range from obviously order intake, what I would describe as short-cycle order intake, which has been a bit of a characteristic that we've seen in 2018, and we believe that it should strengthen. We do feel that there is some slight improvement in pricing, but I don't want to overplay that. There's certain geographies where pricing is extremely tight, others where it's a little better. We do expect vessel utilisation to be reasonably good, and we are quite encouraged by the level of conventional activity that is both present in the Middle East and in West Africa. The PLSV fleet remains working actively throughout 2019, and is one of the bed rocks of our profitability. And we are encouraged by activity – opportunities for activity improvement in the North Sea, both the UK and Norway. And some in the US Gulf of Mexico. In fact, I would extend the US Gulf of Mexico to encompass all countries bordering the Gulf of Mexico. So really, those are there – it gives you a flavour of the drivers that we've taken into account in coming to this conclusion on 2019.

Jean Cahuzac
And I would add that I think I'm very pleased with the way we've continued to execute overall our portfolio of projects. I think it's been one of the strengths of Subsea 7, and I expect that to continue in 2019 and post-2019.

So with that, I think we'd like to close the call. We'd like to thank you, everybody, for your participation and your questions. And we look forward to talk to you in face-to-face visits or at the next earnings call. Thank you. Bye.