First Quarter 2022 Results

Thursday, 28 April 2022

Stian Lysaker – *Treasury and Investor Relations*

Welcome, everyone. This is Stian Lysaker, and I'm the Head of Treasury and Investor Relations at Seaway 7. For the first part of this call, all participants will be in listen only mode, and afterwards there will be a Q&A session. With me on the call today are Stewart Fitzgerald, our CEO, and Mark Hodgkinson, our CFO. The first quarter 2022 result's press release is available to download on our websites, along with the presentation slides that we will be referring to during today's call.

May I 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 our press release. I'll now turn the call over to Stewart.

Stuart Fitzgerald – *CEO of Seaway 7*

Thank you, Stian. And good afternoon, all. The agenda for this call is on slide three. First, I will talk to the highlights of the first quarter. This will be followed by a brief update of ongoing operations across our project portfolio and vessel newbuild program, before I hand over to Mark who will run us through the financial performance for Q1 2022. I will then talk to our positioning for emerging trends in the fixed offshore wind market, as well as the market outlook, before we open for Q&A.

Turning then to slide four, and the financial, operational and strategic highlights in the quarter. Revenue for the first quarter was $267 million, with an adjusted EBITDA of $14 million representing an adjusted EBITDA margin of 5%. This represents improved top and bottom line performance compared to the same period last year.

Operating cash flow was $20 million, giving a net debt excluding lease liabilities of $77 million. Order intake in the quarter was $93 million, and we close at just over $1 billion of backlog at the end of the quarter.

The legacy revolving credit facility of $37 million was repaid in the quarter.

We saw a number of operational highlights, with Seagreen foundation jacket fabrication and installations progressing well as well as lay of inner-array cables.

On Kaskasi, we completed a reduced scope of foundations installation as agreed with our client.

The active fleet utilization in the quarter was 65%, and reflected seasonal effects, being normal low activity and planned maintenance in the Northern Hemisphere winter months.

From a strategic perspective, the key priority for Seaway 7 is the newbuild program, and we continued to progress the *Seaway Alfa Lift* and the *Seaway Ventus*.

During the quarter, we signed a memorandum of understanding with Sumitomo for collaboration on submarine cables projects for the offshore wind market in Japan and Asia Pacific. Sumitomo is one of the leaders in the design and manufacture of cables in this space, and Seaway 7 is a top tier contractor for their installation. The partnership will enable us to provide a one stop shop for EPIC submarine cable solutions for the offshore wind market in this emerging region.

Finally, and I will come back to this in later slides, we are seeing a strong bidding environment across each of our segments and for integrated projects. Our clients have a strong focus on securing future capacity for their projects in a generally tight market. We see our strategy and positioning well aligned to our customers' need.

Moving to slide five, and an update on Seagreen being our largest ongoing project. Fabrication at yards is progressing well. At quarter end of the total 114 jackets on the project, 60 jackets had been delivered on site in Nigg in Scotland with a further 20 jackets completed by fabricators and in transit from fabrication yards in China and the Middle East. This compared to 53 jackets delivered from fabricators at the end of 2021 - so just under 30 jackets delivered in this quarter. The photo on the right here is from the marshalling port at Nigg, and gives a perspective of the volume and scale of this undertaking. Delivery of the remaining jackets to the marshalling yard remains on schedule and we have not seen the COVID related lockdowns in China materially impacting progress on these activities. By quarter end, 21 jackets and 11 cables were installed offshore.

As some of you are aware, an incident occurred on the *Saipem S7000* vessel in mid-April 2022, whilst the vessel was on a Saipem maintenance stop, and not on hire to Seaway 7. The *S7000* vessel has been carrying out foundation jacket installations on Seagreen, and the timing for the return to work on Seagreen is currently being evaluated.

Turning then to slide six. As also presented in the last quarter on this slide, you will see the main projects we have ongoing in Seaway 7.

On the Dogger Bank project in the UK we have phases A, B and C of the project and this provides activity on monopile foundation installation through to 2025. Preparations for the first installation campaigns which will be offshore in the second half of this year, are ongoing.

Hollandse Kust Zuid for our client Vattenfall, is an integrated monopole foundations and cables installation project for 140 foundation units, 34 of which were installed last year. Operations for the 2022 campaign commenced post quarter end on both foundations and cable installation. With regards to the monopile foundations installation, and also as highlighted in the last call, the installations in 2022 will be on dynamic positioning with a new monopole gripper system. The gripper is used to hold the monopoles in position during installation and compensates for the vessel movements whilst in dynamic positioning mode. Installing using this method rather than anchoring the vessel represents a step change in the efficiency of monopile installation. Seaway 7 is the first contractor to deliver a commercial application of this solution. It's a great achievement by our teams.

During the first quarter we remobilised the *Seaway Yudin* to the Formosa 2 project in Taiwan. We again saw challenges with new COVID regimes introduced by the authorities and with poor weather during the start-up phase hampering progress. We are up and running and during the quarter commenced the installation of remaining pin-piles to be completed in 2022. Post quarter end we are seeing better progress as weather improves and we expect to complete our work scope on Formosa 2 in the coming months.

We have a portfolio of three cable lay projects in Taiwan at different stages of their execution and have mobilized the *Maersk Connector* on charter to carry out export and inner array cable lay operations. The *Maersk Connector* mobilized to Taiwan during the quarter and will remain utilised there through much of this year.

On Kaskasi, we completed our monopile foundation installation scope during the quarter, also using the new gripper system on the *Seaway Strashnov*.

On Hornsea 2, we continued to progress trenching activities after having earlier completed the inner array cable lay scope of 400 kilometers of cables with the *Seaway Aimery* and the *Seaway Moxie*.

In Q1 22, the heavy transportation vessels maintained their high levels of utilization despite planned dry dockings and we saw an improvement in the time charter equivalent day rates in the quarter.

Finally, a brief comment on our operational exposure to the ongoing Ukraine/Russia conflict is appropriate. Seaway 7 have no ongoing activities directly in Russia or affected areas, and no contracts or subcontracts which carry sanction risk. Our Seaway 7 offshore fleet does have a number of Russian and Ukrainian crew, and we and our offshore colleagues are actively providing support for these crew members at this difficult time.

Moving to slide seven. We have two new build vessels under construction being the *Seaway Alfa Lift* targeting monopile foundation installation and the *Seaway Ventus*, formerly the Vind 1, which will install turbines and will also have capabilities towards monopile foundation installation.

Seaway Alfa Lift completed successful sea trials of the vessel and marine systems during January, and the yard is working through punch list items. Repairs after the crane A-frame incident of October last year are progressing and to continue to be on track for completion during the second half of the year. As communicated in the last quarterly call, the critical path of the vessel delivery remains the Mission Equipment, which is the deck equipment for the transport, upending and installation of the monopiles. We continue working with our key suppliers to secure these schedules and also, as communicated previously, have activated the contingency plan of using the *Seaway Strashnov* to progress the committed work on the Dogger Bank A project, and mitigate the Seaway Alfa Lift delays compared to original planning.

Over the last month, we are seeing increased risks from the COVID restrictions in China in particularly as it relates to the movement of third-party personnel and equipment. International and in-country movements are significantly constrained, and we are assessing these risks and the forward planning and contingencies towards the *Seaway Alfa Lift* program.

Seaway Ventus made good progress through the quarter with detailed design nearing completion and on schedule, and good progress on shipyard activities. We expect to see keel laying in the coming months. Crane fabrication is progressing at GustoMSC's subcontractor as is the fabrication of gears for the jacking system.

Delivery for the *Seaway Ventus* remains scheduled for mid-2023 with the first committed project being in the spring of 2024. As previously highlighted, we will continue to assess progress on the build program before seeking or committing to earlier projects.

Finally moving to slide eight and before I hand over to Mark. Q1 of 2022, saw somewhat limited order intake into the backlog, although we did see a sizable, which for Seaway 7 means 50 to $150 million, award for an EPCI inner array cable contract from ENBW on the He-Dreiht project. As the project remains subject to client FID this award is not included in the backlog although the contract is in place and early works on cable procurement has commenced and will move into the backlog on a progress basis.

I will come back to our views on the award market in 2022, further in the presentation. But with that I hand over to Mark to run through the financials.

Mark Hodgkinson – *CFO of Seaway 7*
Thank you, Stuart, and welcome everyone. If we turn to slide nine. Here we show our income statement highlights for the first quarter 2022 and the comparable results for the same quarter in 2021. Please note that the results for the first quarter of 2022 represents Seaway 7 ASA and its subsidiaries, whereas those results for the first quarter of 2021 represents the performance of the Subsea 7 Renewables Business Unit only.

Revenue for the first quarter was $267 million, which is 11% higher than the $241 million reported in the first quarter of 2021. This reflects higher activity levels on Seagreen project, and the addition of revenue related to the offshore heavy transportation business as a result of the business combination on the 1st of October 2021.

Adjusted EBITDA for Q1 2022 was $14 million, which is up from the $7 million EBITDA loss reported in the same quarter 2021. This Q1 2022 result represents an adjusted EBITDA margin of 5%, which is an improvement on the negative 3% EBITDA margin recorded in Q1 2021. The 2021 comparable quarter was impacted by lower vessel utilization.

The net loss was $2 million for the quarter, equivalent to a diluted loss per share of less than one US cent.

On slide ten, we show some supplementary details for the quarter. These additional income statement related details include administrative expenses, which in the first quarter of 2022 were $10 million. This is in line with the guidance we gave in the Q4 2021 earnings call. We also show that the quarterly depreciation and amortization increased by $9 million compared to Q1 2021. This reflects the addition of the heavy transportation fleet in the fourth quarter 2021 and the addition of the charter of the cable-lay vessel the *Maersk Connector*.

On slide 11, we highlight the Seaway 7 consolidated balance sheet as at 31 March 2022. You will see that the non-current assets totalled $1 billion, of which $927 million related to property, plant and equipment with the majority of that balance reflecting the vessel values.

Cash held at quarter end totalled $22 million.

Total borrowings at the end of the quarter was $99 million which was provided by our major shareholder. The Revolving Credit Facility provided by an external bank syndicate was canceled during the quarter and the drawn balance of $37 million as at the 31st of December 2021 was fully repaid in January 2022.

Current assets of $304 million includes trade and other receivables of $81 million and unbilled work under construction contracts totalling $201 million. Some of these balances relate to work undertaken prior to the combination.

Current liabilities were $354 million which includes an amount of $153 million payable to Subsea 7 relating to working capital balances owed by clients on projects just prior to the combination date.

The cash flow from operating activities for the quarter was $20 million, which includes project related net working capital inflow of $5 million. Our capital expenditure for the quarter was $13 million.

The net funding for the quarter was in fact an $8 million repayment, reflecting $34 million support from our major shareholder, offset by the repayment of $37 million external Revolving Credit Facility and $5 million of repayments related to lease liabilities. So, I'll now pass you back to Stuart.

Stuart Fitzgerald – *CEO of Seaway 7*
Thank you, Mark. And then on to Slide 12. This slide shows Seaway 7 positioning across the offshore wind farm value chain. We are in heavy transportation, in substations installation, in foundations and cables – delivered under various contracting models and we will be in turbines installation in the future.

To provide scale and context of the different activities, the percentage values are our estimates around the revenues delivered from each of the activities on a fully invested basis – so when the *Seaway Alfa Lift* and the *Seaway Ventus* are operational alongside the existing fleet. Margin contribution to the group will not follow the same distribution as different activities will have different profitability depending on the asset intensity and pulled through considerations.

We believe we are strongly positioned in each area. This overall offering has been a strategic journey. Starting with Seaway Heavy Lifting and its long track record in foundation and substation installation, the 100% acquisition of Seaway Heavy Lifting by Seaway 7, the subsequent acquisition of Siem Offshore Cables, the conversion of the *Seven Phoenix* from an oil and gas vessel to a renewables cable-lay vessel, and finally the transaction with OHT, bringing the heavy transportation fleet and the two newbuilds to form Seaway 7 as we are today.

The combination of activities combined with strong project and risk management capabilities from our history with complex marine project delivery within subsea oil and gas, is what gives us differentiation, and the ability to offer our customers broader integrated solutions.

With larger and more complex projects, the globalization of the business, the benefit of doing things in parallel rather than in sequence to provide earlier completion dates, and human resources becoming increasingly constrained, we see the trend towards integrated projects continuing to strengthen and see our offering well suited to that trend line.

Moving to Slide 13 and some comments on the market and the bidding pipeline. The chart on the left shows the update seen every six months since 2017 to the projected gigawatts of installed offshore wind capacity in Europe. This is before a number of recent upward revisions from some EU member states. Effectively the ambition level for offshore wind continues to increase year on year, and we see this very clearly also in our bid pipeline. Whilst volatility can be expected, and it may be a challenge for market participants to meet the full extent of the ambitions, we see at macro level, and in our tendering and client contacts, a market which is picking up pace and where the demand for our services is clearly and significantly strengthening.

As shown on the chart on the right, which is our ongoing tender activity, integrated projects and EPCI projects are an increasing component of that demand.

As we bid this future portfolio, we are maintaining a strong focus on risk – particularly around supply chain, and entry into new geographies. This is particularly important given current market volatility.

We see multiple prospects in the final stages of evaluation and remain comfortable that 2022 will see a significant volume of work committed to the market. The UK CFD round in the summer will be an important trigger. With regard to current supply chain volatility impacting near-term awards, we are not seeing this in our day-to-day interactions with our clients, although we cannot discount it becoming a factor.

On slide 14, you see our normal snapshot of the main upcoming prospects. This slide highlights the importance of the UK and US market going forward. In both of these markets, Seaway 7 are able to leverage the long operating history and positioning of our majority owner, Subsea7, which we believe is a unique strength for us. As seen, Poland is also an important emerging market in Europe.

Moving to slide 15 and a summary of this Q1 earnings presentation. Q1 2022 saw seasonally lower utilization, but at the end of the quarter, we had commenced offshore operations on a number of projects and this high activity will continue through much of 2022.

Ongoing tendering is significant for projects expected to be awarded to the industry in 2022, primarily for projects in the UK, Europe and the US. This underpins our positive outlook for activity and earnings for Seaway 7 beyond the current backlog.

To support the positive outlook, we expect to have the core financing of the company in place by the end of the third quarter of 2022.

New assets under construction, a strengthening market and our ability to deliver large, Integrated and EPCI projects for our customers will be key drivers for earnings growth going forward.

With that, I will end the presentation. Thank you for your time and interest, and we will now move to the Q&A.

Q&A

Operator: Ladies and gentlemen, to ask a question, please press five star on the telephone keypad. To withdraw your question, please press five star on the telephone keypad again. We will have a brief pause while questions are being registered.

The first question comes from the line of Vidar Lyngvær from SpareBank 1 Markets AS. Please go ahead your line will now be unmuted.

Vidar Lyngvær (SpareBank 1 Markets AS): Thank you. Good afternoon Stuart, Mark and Stian. My first question is looking at your guidance and on what to deliver in Q1 together. You guided for 1 billion for 2022. You delivered quite high revenue in this quarter with lower margins than maybe expected. If I run the numbers, you are going to need some 30 to 40% EBITDA margin on average for the last three quarters and probably above that for last in the second half as Q2 was probably going to be a bit below. Is this the start of a trend of margin expansion or is it more related to the contingency release and Seagreen? Also, what quarter is Seagreen scheduled to complete?

Mark Hodgkinson: Vidar, it's Mark here. Perhaps I'll give my thoughts on that and Stuart may follow. In terms of the performance that you see there, and I know you're looking at EBITDA margins for quarters, but all we would say is that there is a seasonality effect in our business, which we do highlight in our notes there accounts. So Q1, you can expect to be a little quiet because of the weather. And likewise Q4, and we would expect to see better performances in Q2 and Q3, being the summer months when the activity is stronger. So, it is still our guidance - we do reaffirm that. And I think if you take into account the seasonality, then I think you should be able to see the numbers for the year.

Stuart Fitzgerald: Nothing more to add.

Vidar Lyngvær (SpareBank 1 Markets): All right. Thanks for that. I'm aware of the seasonality, I was more looking for the... you delivered a very strong Q1 compared to your typical Q1's for the year, and that will eat up a lot of revenue. But all right.

Stuart Fitzgerald: Remember, a significant part of the revenue delivery in Q1 relates to Seagreen jacket fabrication, whereas the operational activity with vessels was lower and will be more biased towards the Q2 and Q3.

Vidar Lyngvær (SpareBank 1 Markets): All right. Thanks for that. Can you remind us when the Seagreen is scheduled to end, will that be Q4?

Stuart Fitzgerald: Early 2023, Vidar.

Vidar Lyngvær (SpareBank 1 Markets): Great, thanks. And then one more question on the pipeline for potential work for 2023. The lead time for offshore wind work seems to be a couple of years. Most of what is tendered for these days is for execution in 2024 and 2025. Could you provide some color on what kind of work you would be tendering for with 2023 execution? Thank you.

Stuart Fitzgerald: For 2023 execution, you need to think of larger EPCI projects which have a more linear path in terms of their revenue delivery through the life of the project. So, it will depend to some extent on the project mix that we have, both revenues from fabrication activities and the procurement activities in relation to EPCI projects deliver obviously well ahead of offshore phases of the project. So that’s one consideration to take into account. The second consideration I would take into account, is the fact that a number of the ongoing projects in the industry are slipping and we see opportunities for shorter term vessel contracting in 2023 outside of, if you like, the normal longer lead time of projects. So, we're still comfortable that 2023 can deliver solid revenue and essentially tracking the market seeing that there are still prospects for significant activity.

Vidar Lyngvær (SpareBank 1 Markets): Great. Thank you so much.

Operator: The next question is from the line of John Rome from Clarksons. Please go ahead your line will be unmuted.

Turner Holm (Clarksons): Good afternoon, gentlemen. Thanks for taking my call. Turner from Clarksons here. Just to follow up on some of Vidar's questions on 2023. I guess one way to look at that backlog is in dollar numbers, which you report. But given your comments about procurement on Seagreen making up a big part of what you've had recently, it's really tough to compare what those dollar numbers actually mean in terms of EBITDA. When you look at 2023, I guess another way to look at it is vessel utilization; what kind of utilization do you think is secured, and what do you think is achievable given the sort of widespread slip ups we're seeing in the industry with projects? Thank you.

Stuart Fitzgerald: I would say that we think reasonable utilization is achievable. Too early to provide any clear guidance on 2023. But as you said, some of the delays that we're seeing in the industry provide the opportunity to provide decent utilization next year. That's the way that we see.

Turner Holm (Clarksons): Okay. So, could be quite decent from a margin perspective or an EBITDA perspective, but obviously just much less procurement mix in next year, if I'm reading it correctly?

Stuart Fitzgerald: To a certain extent, but remember that awards that are secured through the second half of this year, if they are larger EPCI jobs, they will deliver procurement in 2023.

Turner Holm (Clarksons): Okay. To come to one of the items that you mentioned in the presentation, the incident with the Saipem S7000; to what degree are you all sort of on the hook if that vessel doesn't find some sort of quick fix and make it back to Seagreen? I mean, so how does that, you know, contractually work or what's the financial exposure? Is there a replacement available if it doesn't return in a timely manner?

Stuart Fitzgerald: I think we're too early to comment on that one. We're obviously watching Saipem and watching the return to work of the S7000. Saipem is being public that their expectation is a return to work during June at a reduced capacity with one crane. Seagreen requires only one crane. Saipem is likely in the market looking at what other capacity is available. Saipem has a contractual obligation to us to install those jackets. So too early to comment, but Saipem has made their own their own public comments there.

Turner Holm (Clarksons): Okay. And then on the outlook, which is I guess everyone agrees is very strong with regards to the potential for new projects - you talk about a $6 billion pipeline. Just trying to think through a timing of award for some of those projects. Should we expect more volumes over the next few months before the summer? You mentioned, for example, the CFD round in the UK being a sort of major milestone. Do we have to wait for CFD in the UK for those projects to kind of go out and award contracts to suppliers, or could we see some awards prior to that but maybe subject to the project going forward?

Stuart Fitzgerald: I think the latter. I would say a combination of contracts subject to, but also preferred supplier agreements, early works agreements and I think FIDs later in the year on those UK projects, but essentially the operators choosing their contractors ahead of that and probably through the through the summer. And then of course the US prospects independent of the CFD round, and we see prospects in the US over the next 3 to 4 months as well.

Turner Holm (Clarksons): One last one for me. You just mentioned the core financing of the company, it sounds like you're kind of narrowing down what that's going to look like. Could you provide any more color on what that could look like?

Mark Hodgkinson: Sure. I think what we will do is announce when we have something in place, we have lots of opportunities. So, I don't think the issue is appetite, it's a question of choosing the right one for the profile that we see going forward. So, we will provide announcements when we have something locked in, but prior to that point I think it is not appropriate for us to comment on our preferences as that's a sensitive topic.

Turner Holm (Clarksons): Okay. But you see the company to be fully financed?

Mark Hodgkinson: That's the intention. Yes, we believe we can do that.

Turner Holm (Clarksons): All right. Excellent. Thanks so much. I'll turn it back.

Operator: As a reminder to ask a question, please press five star on your telephone keypad. We will have a brief pause while the questions are being registered. As they are no more questions I will now hand the word back to the speakers.

Stuart Fitzgerald: Thanks for that. Thanks very much, everybody. We appreciate the calls. And we look forward to talking to you again on our Q2 2022 earnings call. Bye now.

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