



## **Acquiring IKM Subsea & Technology**

15 February 2018

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# Agenda

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## Agenda

1. The transaction
2. Overview of IKM Subsea & Technology
3. Concluding remarks
4. Appendix

# Hunter acquires IKM Subsea & Technology (“IKM S&T”)

- Secure control of a leading subsea company with state-of-the-art ROV services
- Cash flow generating business
- Substantial growth potential through new R-ROV technology reducing costs and improving productivity and safety
- Market conditions are improving – right time in cycle for Hunter
- New industrial partner through IKM Group as large shareholder

## IKM Subsea & Technology – key highlights



IKM Subsea & Technology

- An independent subsea technology company and ROV operator
- Established track record and strong market positions
- Technology leadership
- Strong contract backlog



**23 ROVs<sup>1)</sup>**  
**1 R-ROV<sup>2)</sup>**



**136 full-time employees**



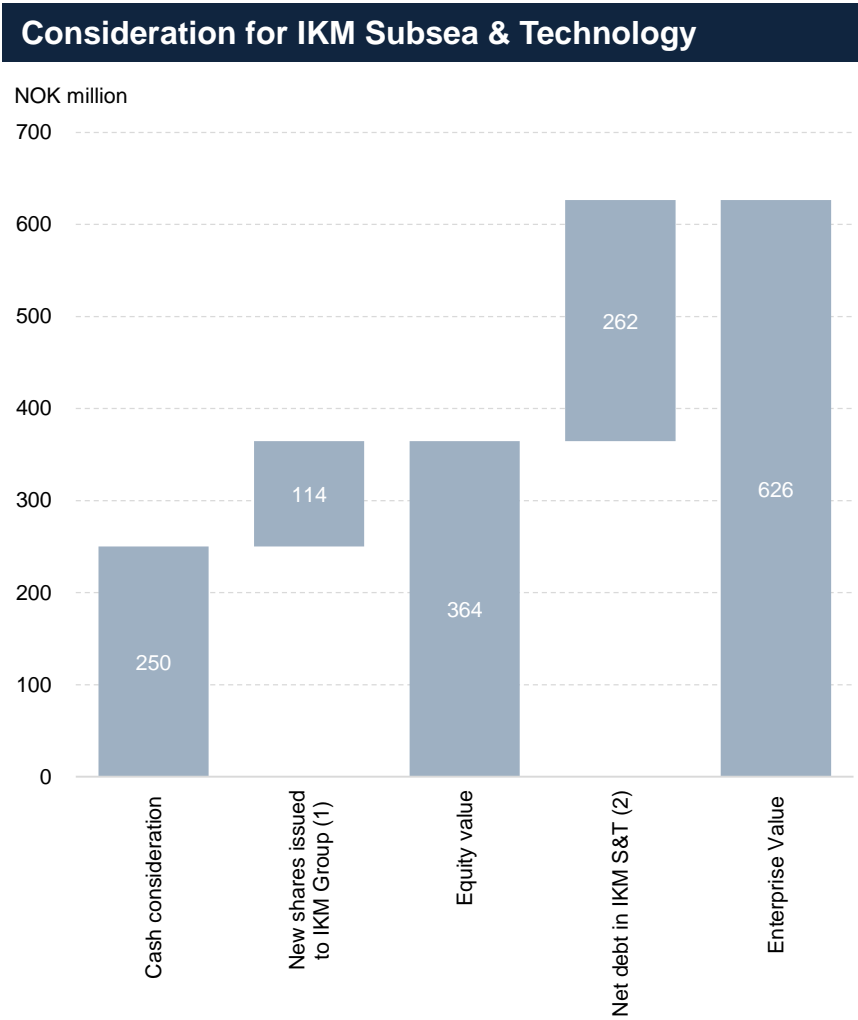
**NOK 264m**  
revenues '17


**NOK ~950m**  
backlog

**Good fit with Hunter's focus on differentiating technologies at competitive cost and attractive platform for growth and value creation**

# The transaction

- NOK 250m in cash from existing Hunter cash position and private placement proceeds to settle corresponding intra-group debt in IKM Group
- NOK 114m in new Hunter shares marked-to-market based on the current share price<sup>1)</sup>
- IKM Subsea & Technology enterprise value of NOK 626m
  - NOK 262m in net debt as per year-end 2017, of which NOK ~260m will be refinanced with a new bank debt facility after the acquisition
- IKM Group will own ~22.4% of Hunter following the private placement<sup>1)</sup>
  - 24 months lock-up on shares
- Pro-forma consolidated cash and debt for Hunter Group is estimated to be approximately NOK 87m and NOK 277m, respectively, as per Q4 2017 after completion of the acquisition and the private placement<sup>1)</sup>





1) IKM Group will receive 23,901,412 new shares in Hunter and an interest free seller's credit in the amount of NOK 55,455,063 which shall be converted to new shares in Hunter at the same subscription price as in the private placement announced in connection with the acquisition. The value of shares received and ownership position after the private placement is based on Hunter share price of NOK 2.445 per share as per close 14 February 2018 and assuming private placement gross proceeds of NOK 75 million. 2) Net debt as per YE 2017, including adj. for normalised NWC

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# Why IKM Subsea & Technology?

## Technology leadership and growth

- First mover in new ROV technology with several competitive advantages
- Strong growth potential through roll-out R-ROVs and onshore operations – potential for 25-30 R-ROV spreads in the North Sea alone
- Experienced subsea technology team and development of new tools and services

## Solid contract backlog

- NOK 950m contract backlog and long term relationships with broad client base
- 10 year contract with Statoil for 4 ROVs operated from IKM S&T's onshore control centre

## Attractive financing secured

- Cash flow and backlog profile enabling attractive debt refinancing after the acquisition
- Low break even cash flow ensuring substantial cash generation for Hunter

## Recovering market

- Overall market is improving with expected growth in offshore spending from 2018
- Increasing activity in North Sea – IKM S&T's home turf

## Strong industrial partner

- IKM Group will become a significant shareholder in Hunter and will focus its future subsea activities through Hunter

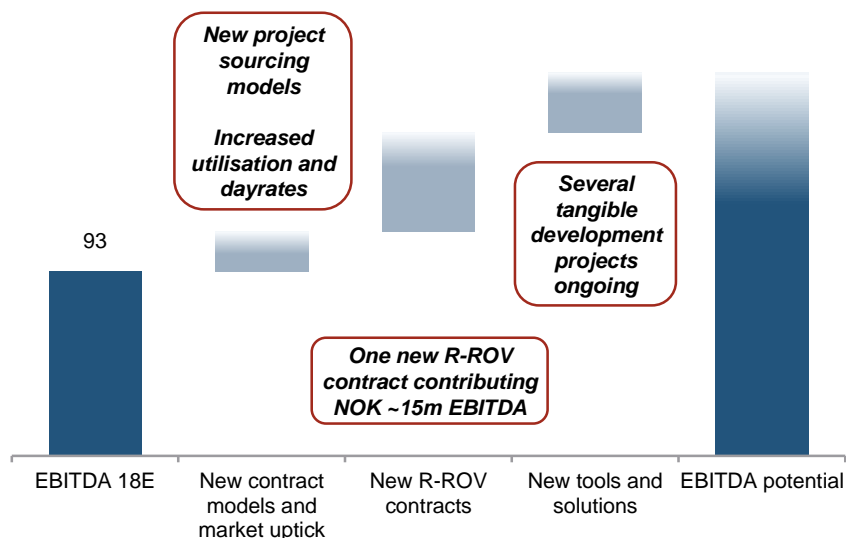
# Attractive entry point in Hunter – IKM Subsea & Technology provides additional upside

## Hunter valuation before the acquisition

- Market cap of NOK 321m<sup>1)</sup>
- Net cash position of NOK 264m<sup>2)</sup>
- Gross tax loss carried forward NOK 307m – NOK 70m net<sup>2)</sup>
- Significant upside potential through potential repricing of Dwellop:
  - 70% increase in orders YTD for Dwellop's products and equipment, compared with 2017 YTD
  - Dwellop's board of directors has approved a work-over rig (WOR) contract, however subject to firm contract between the yard and its client
  - Dwellop has also been shortlisted for another WOR project

## IKM Subsea & Technology valuation

- Attractive valuation based on EV / EBITDA multiple of 6.7x<sup>3)</sup> for 2018E given strong contract backlog and significant growth opportunities – key comparables trading at higher multiples



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# Introduction to IKM Subsea & Technology

## Key facts

### IKM Technology



Engineering and development

### IKM Subsea



Operations

- Multidisciplinary subsea engineering team with extensive competence and operating experience
- Top 10 ROV operator globally with 24 ROV systems
- Reshaping ROV operations through first R-ROV system permanently installed on the seabed combined with onshore control centre, designed to significantly reduce cost, complexity and improve safety

## Global presence

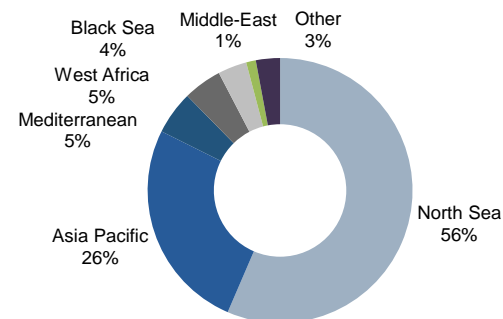


## Broad and diversified client base within ROV operations

Operations for more than  
>100 E&P and oil services  
companies globally

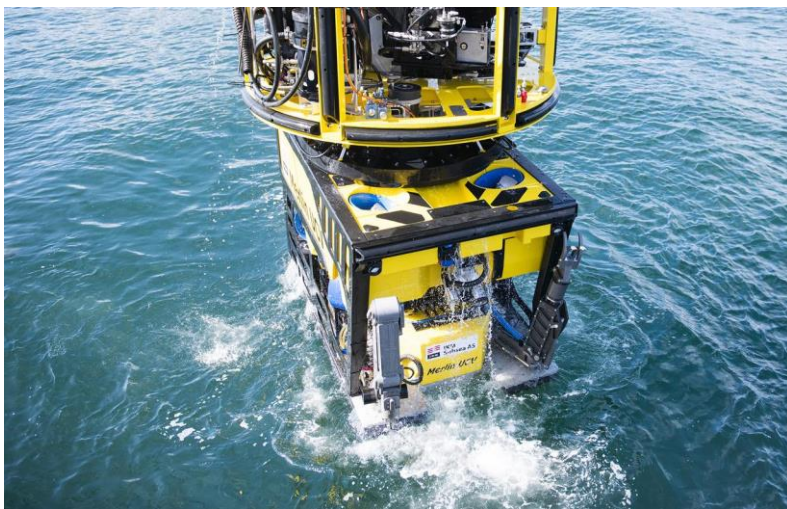
>160 projects  
completed since 2010

Geographical distribution of  
projects since 2010:



# A leading ROV operator with new game-changing technology

## Leading ROV operator



- Modern high specification fleet of 24 work-class ROVs, of which 19 are IKM S&T's own Merlin design<sup>1)</sup> – average age of ROVs is below 5 years
- Top 10 player globally and top 3 position in the North Sea, which is one of the largest ROV markets
- First provider and operator of ROVs with fully electrical propulsion, providing higher efficiency and environmental benefits

## Winner of first commercial R-ROV contract with Statoil

Onshore control  
centre at Bryne  
«Offshore from onshore»



Snorre B

Visund

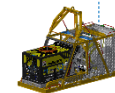
Link

Fibre

Com/Power



UCV



R-ROV



WR200



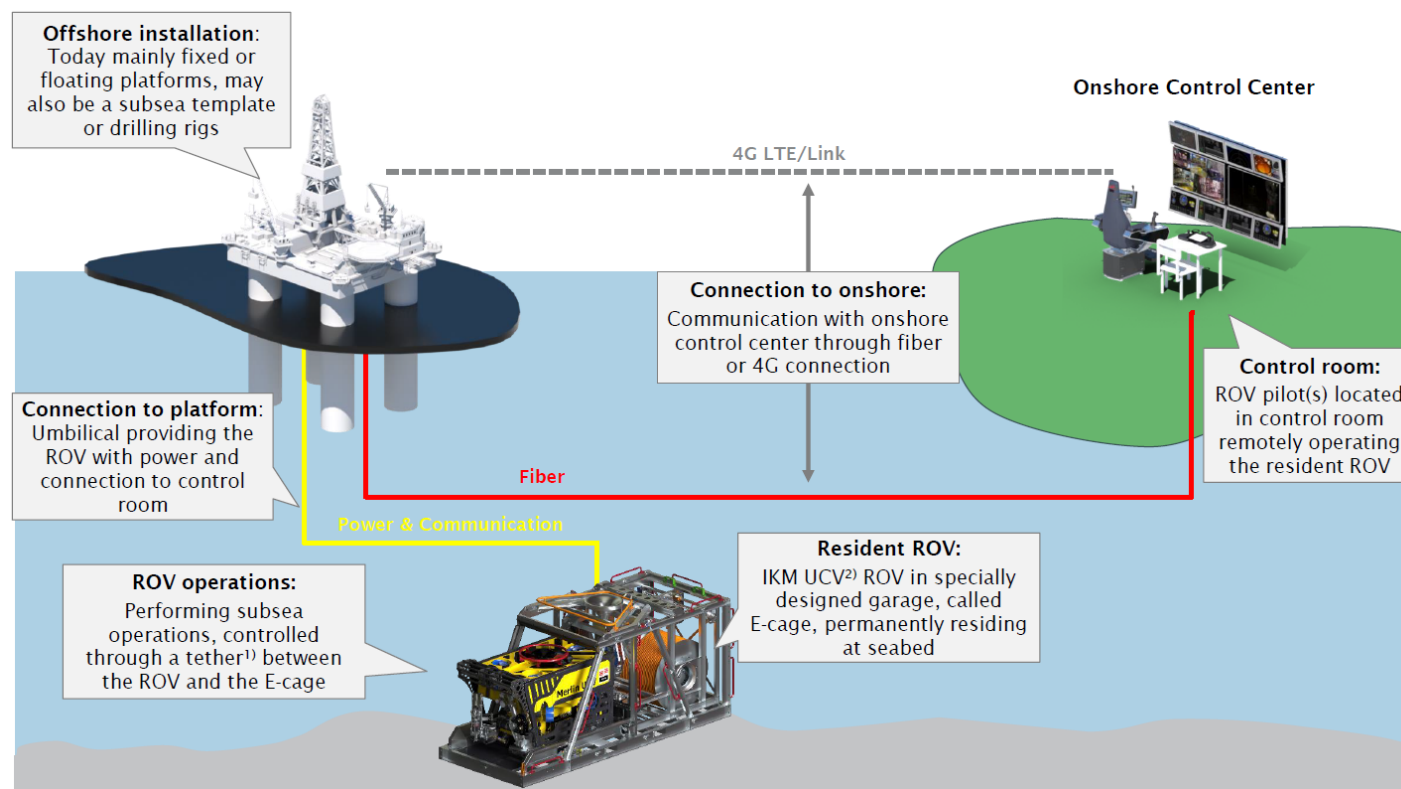
Seaeye  
tiger

- Long term contract with Statoil for 4 ROVs which will be operated from the onshore control centre at Bryne
- One in-house developed R-ROV is permanently stationed on the seabed in intervals of up to 3-6 months at the time
- 10 year contract with 3 x 5 years extension options – estimated value of NOK ~0.75bn for the initial 10 years period

1) All 19 units can be rebuilt for onshore operations at an estimated cost from NOK 2.0-4.5m per ROV

# The new R-ROV system and onshore control operation is a key differentiator for IKM S&T, greatly reducing costs for operators

## Overview of IKM Subsea & Technology's R-ROV and onshore control centre solution



**New solution reducing costs and improving productivity and safety  
– commenced operation for Statoil in January 2018**

Source: Illustration courtesy of Arkwright

1) The tether is a cable supplying the ROV with power and providing communication & signal to the ROV

2) UCV= ultra compact vehicle. IKMs ultra-compact work class ROV designed to have the same capabilities as larger work class ROVs

# Strong technology offering with broad portfolio of various tools and systems developed by experienced multidisciplinary team

## Broad technology offering focused on specialised subsea solutions

### ROV Systems



- Electric ROV
- Control system
- Power system
- ROV simulator
- Remote ROV Operation
- Resident ROV
- E-ROV
- High Speed ROV

Internal

### Subsea Products



- Connectors
- Compensators
- Cutting tools
- Cleaning tools
- Subsea Transformers
- Subsea actuators
- New products

Internal & External

### Life of Field



- Tailor made solutions
- Repair and upgrade of subsea tooling
- Rental
- Variable Buoyancy ("VBS")
- Offshore service

External

### Subsea Systems



- Mud Recover System
- Utility pumping
- Electrical systems
- Distribution systems
- IWOCs/RWOCs<sup>1)</sup>
- Water treatment

External

## Key highlights

- ✓ Multidisciplinary subsea engineering team
- ✓ Strong ROV and technology development experience
- ✓ Independent technology provider
- ✓ Close relationship with the operational users of the main products

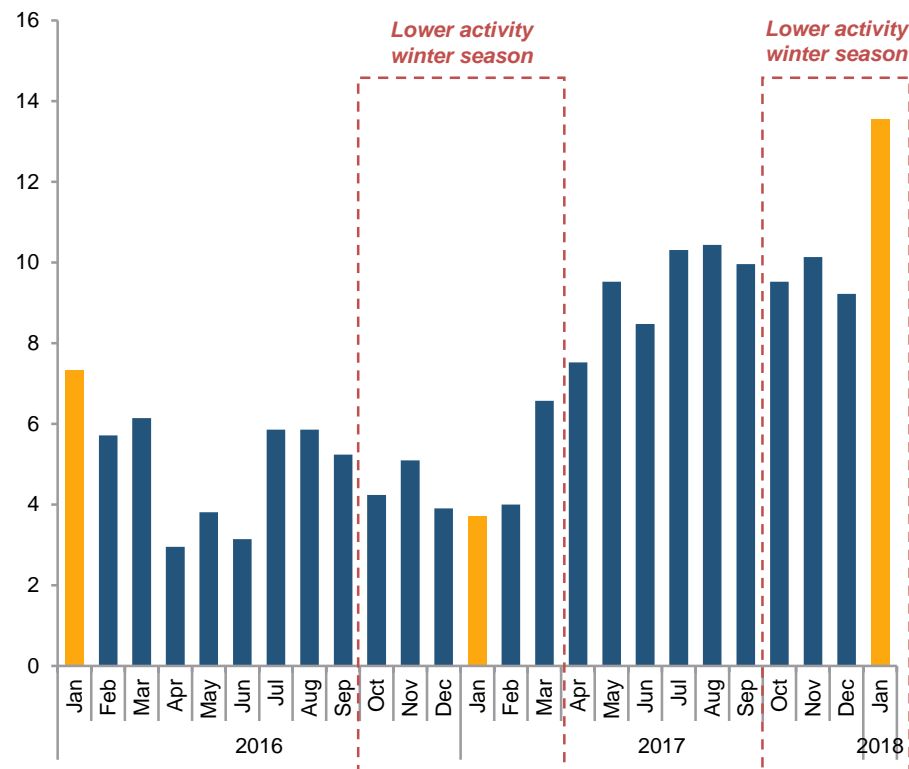
## Extensive track record as technology provider for blue chip clients



# Solid contract backlog securing visibility

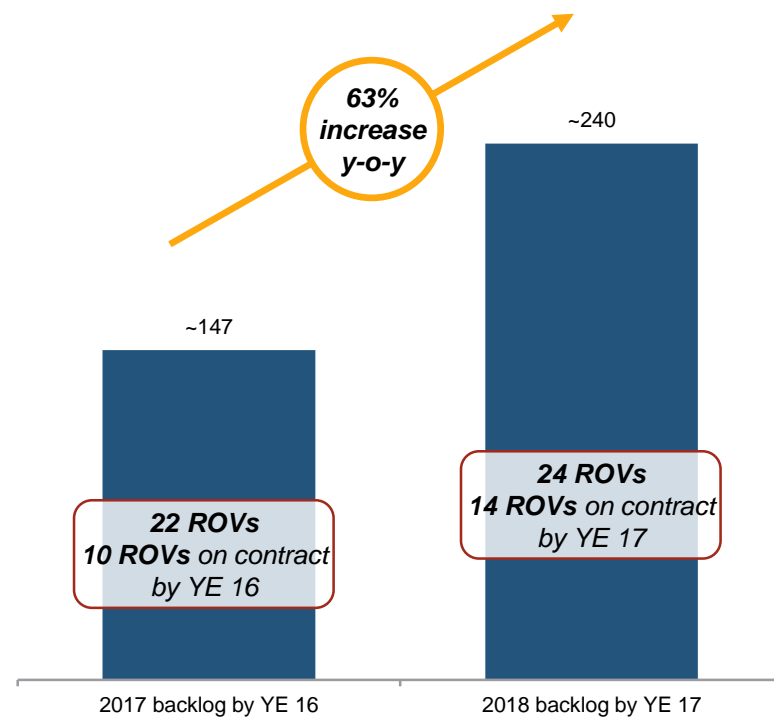
## Operational days per ROV development & order backlog

Operation days per ROV in fleet



**Significant improvement in utilisation**

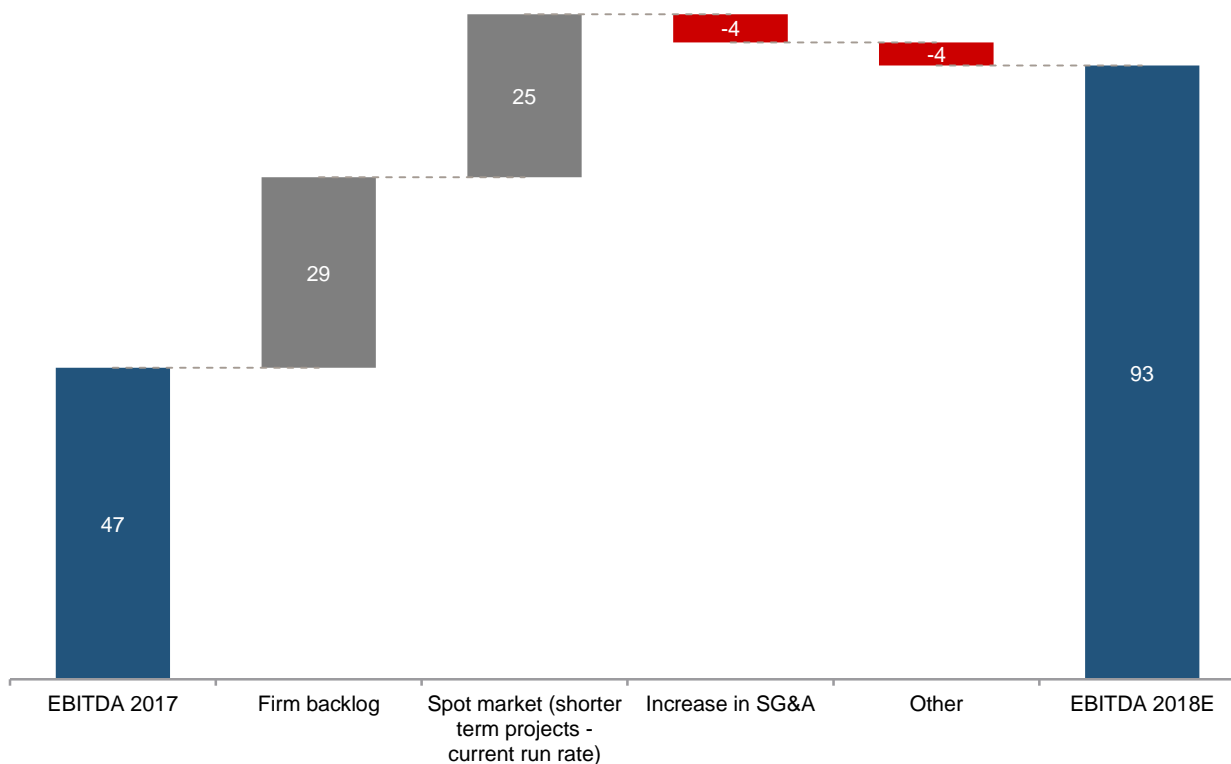
## Current backlog for ROV operation (NOKm)



**NOK ~950m total backlog, of which NOK 750m to Statoil**

# Current backlog substantiating 2018 EBITDA estimate

## Bridge from 2017 EBITDA to 2018 estimate

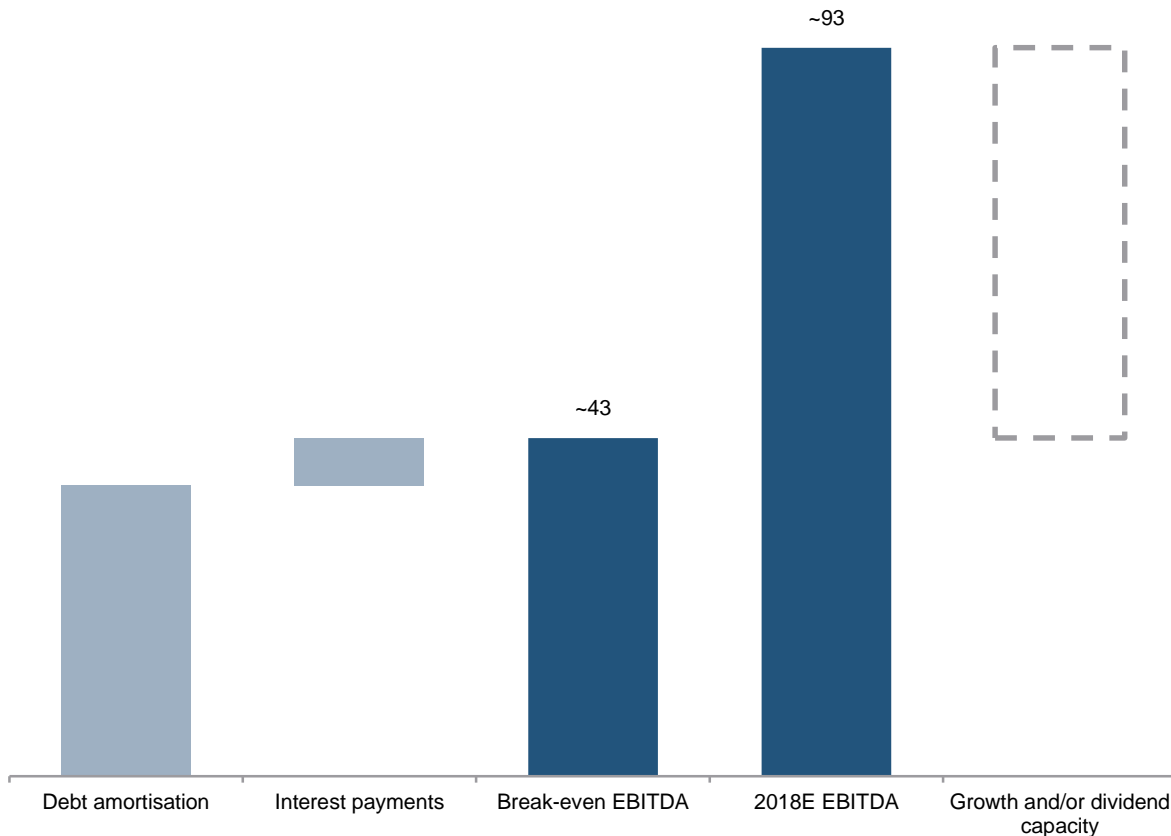


- Significant improvement in earnings visibility due to higher contract backlog
  - 14 ROVs on contract, of which 9 ROVs with contracts spanning beyond 2018
- Different contract models, of which some contracts have variable volume
- Strong run-rate into 2018 on shorter-term projects – higher day-rates and increased utilisation in seasonal low winter period in the North Sea



# Attractive debt refinancing ensuring substantial cash generation

## Estimated cash flow break even level after refinancing

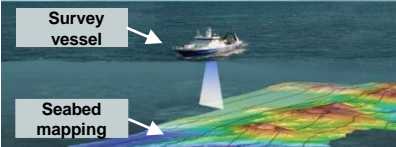






- Hunter has secured a new bank facility to refinance existing IKM S&T debt
- No parent guarantees and favourable covenants
- Significant cash flow generation above estimated breakeven EBITDA of level of around NOK 43m
- Will enable cash flow to finance growth and / or dividend
- Available bank financing will support growth and sound long-term capital structure

# The main application areas for IKM S&T are subsea construction and IMR

## ROV application areas

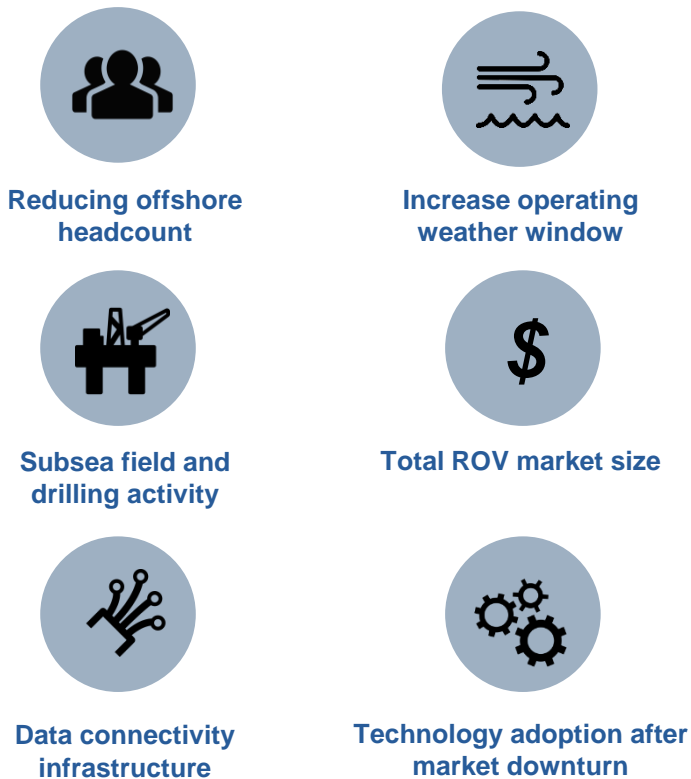


ROV application area	Survey			Drilling support		Subsea construction			IMR			
												
Life-cycle exposure	Exploration	Field dev't	Production	Exploration	Field dev't	Production	Exploration	Field dev't	Production	Exploration	Field dev't	Production
Importance to IKM S&T	—			✓✓✓		✓	✓✓✓					
Market outlook	➡			➡		➡	➡			➡		

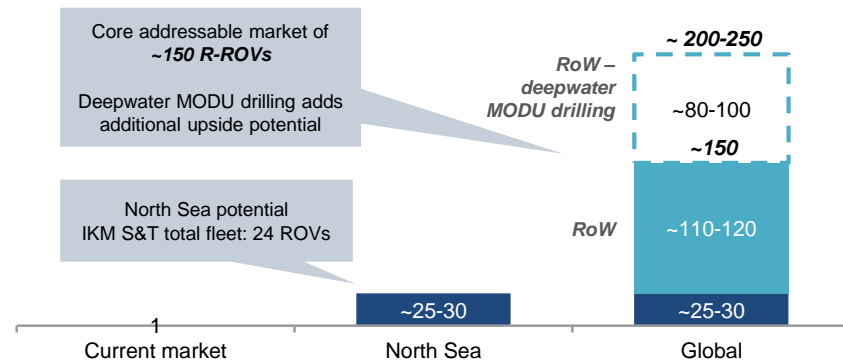


# R-ROV market expected to comprise >150 R-ROVs over the next 10 years

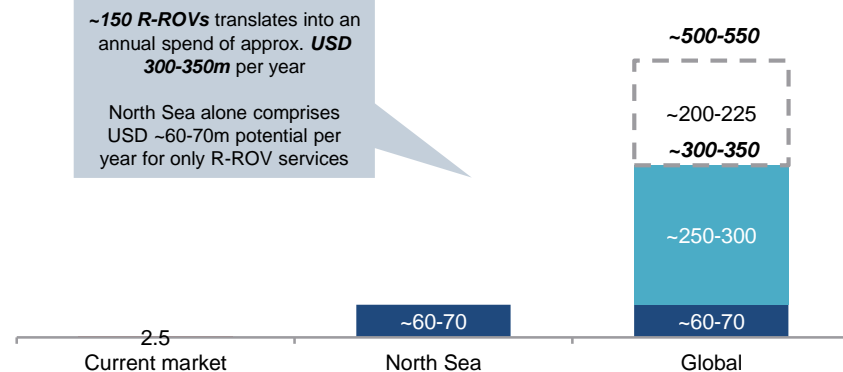
## Drivers and factors impacting R-ROV potential



## R-ROV demand outlook (Number of ROVs)



## R-ROV demand outlook (USDm)



**Estimated NOK ~15m in annual EBITDA contribution from one new R-ROV contract**

# Strong industrial partner and management team with proven track record

## IKM Group and Ståle Kyllingstad



- IKM Group is a multidisciplinary oil services group, providing a wide range of engineering and competence driven services and solutions to the oil and gas industry
- ~2,450 employees globally and a budgeted turnover of NOK ~3.1bn in 2017
- Established in 1989 and headed by sole owner Ståle Kyllingstad, a petroleum engineer by background with >30 years of experience from the oil services industry. Since its foundation, IKM Group and Ståle Kyllingstad have acquired more than 50 companies
- Following the transaction, Ståle Kyllingstad will join the Board of Directors of Hunter

## Experienced management team in IKM S&T



### Managing Director – Subsea Operations

Ben Pollard

- Previous positions: Business Director at IKM Subsea, Finance manager at GMC Group
- ~9 years within the IKM Group



### Managing Director – Subsea Technology

Jostein H. Reinsnos

- >30 years experience from various technical and management roles for Siemens, Innova, Halliburton and Oceaneering
- ~ 5 years as MD of IKM Technology



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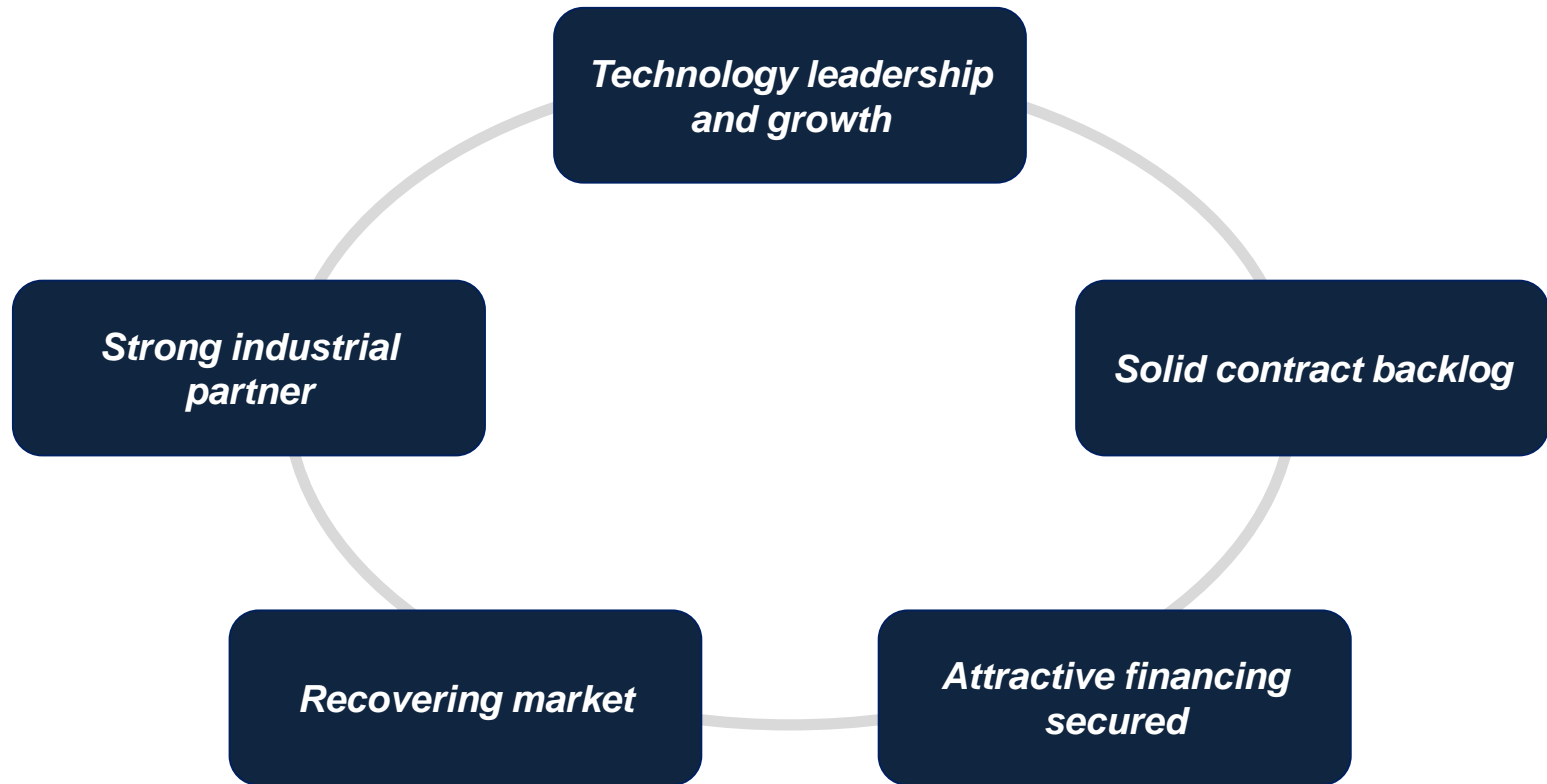
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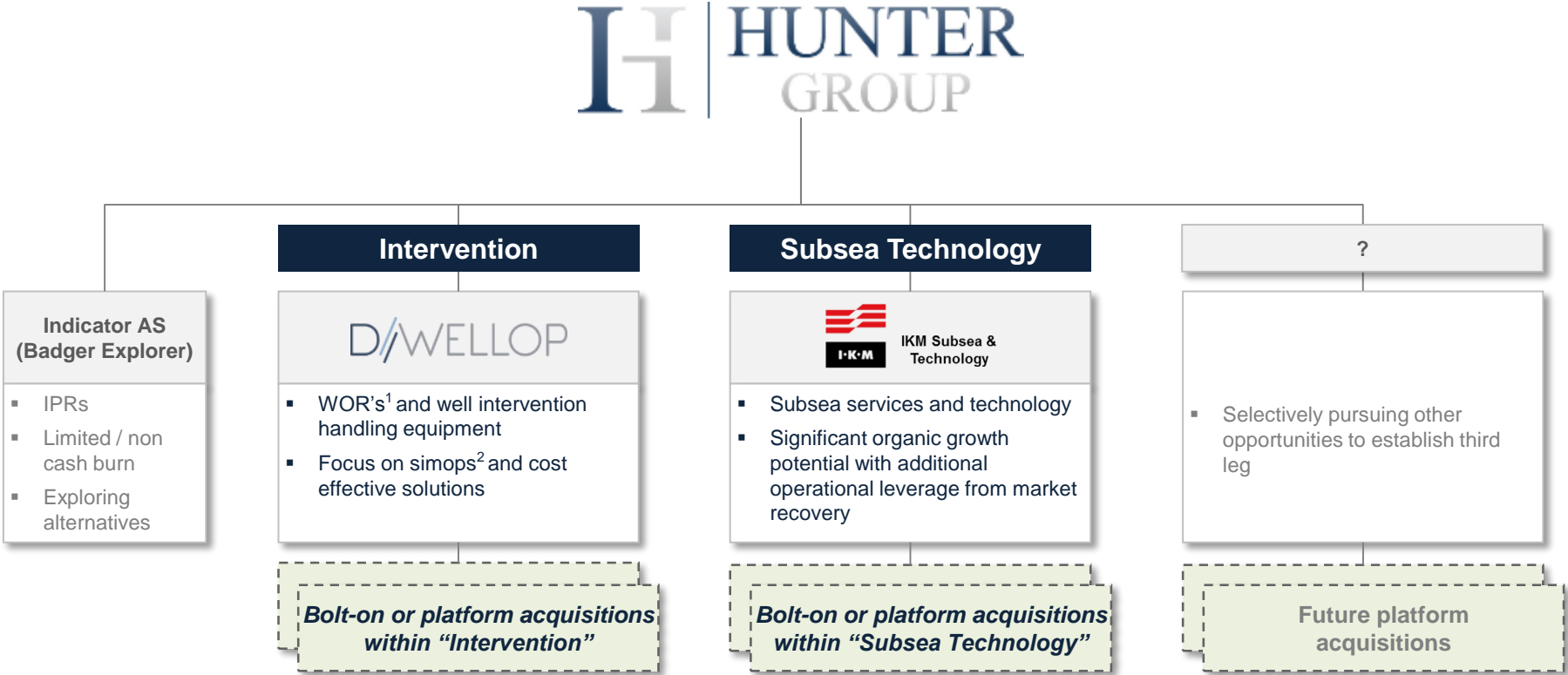
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# Why IKM Subsea & Technology?

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# Securing a new growth platform for Hunter



1) Work-over rig is a mobile rig used to perform well repair and production enhancement work in existing wells, and can easily can be moved from one location to another  
2) Simultaneous operations

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# IKM Subsea & Technology 2016 and 2017 financials

## Pro-forma IKM S&T P&L<sup>1)</sup>

NOKm	FY16	FY17
<b>Revenue</b>	<b>235.2</b>	<b>264.3</b>
Cost of goods sold	-82.8	-103.7
<b>Gross profit</b>	<b>152.4</b>	<b>160.6</b>
Payroll expenses	-83.3	-91.7
Other operating expenses	-27.9	-21.7
<b>EBITDA</b>	<b>41.2</b>	<b>47.2</b>
<i>EBITDA margin (%)</i>	<i>17.5%</i>	<i>17.9%</i>
Depreciation and amortisation	-61.6	-69.6
<b>EBIT</b>	<b>-20.4</b>	<b>-22.4</b>
<i>EBIT margin (%)</i>	<i>-8.7%</i>	<i>-8.5%</i>







## Pro-forma IKM S&T balance sheet<sup>1)</sup>

Assets	FY17	Equity and liabilities	FY17
Intangible fixed assets	21.6	<b>Equity</b>	<b>371.0</b>
Tangible fixed assets	573.5	Non-current interest bearing debt	257.1
<b>Total non-current assets</b>	<b>595.1</b>	Other non-current liabilities	17.0
Inventory	9.1	<b>Total non-current liabilities</b>	<b>274.0</b>
Receivables	113.1	Payables	52.4
Cash and cash equivalents	7.2	Public duties owed	9.5
<b>Total current assets</b>	<b>129.4</b>	Other current-liabilities	17.6
		<b>Total current assets</b>	<b>79.5</b>
<b>Total assets</b>	<b>724.5</b>	<b>Total equity and liabilities</b>	<b>724.5</b>

1) Note: Pro-forma consolidation of IKM Subsea Holding AS, IKM Technology AS, IKM Subsea AS, IKM Subsea UK Ltd and IKM Subsea Singapore Pte Ltd after conversion of IKM intragroup debt to equity and before refinancing of lease debt

# The new R-ROV system and onshore control operation is a key differentiator for IKM S&T, greatly reducing costs for operators

- The R-ROV offers significant cost savings for operators of fixed platforms due to less personnel offshore, less equipment topside, longer weather windows and associated costs
- The most substantial saving result from reduced need of subsea vessels, which in can have day rates in the range of USD 20-50k/day for the vessel alone
- The onshore control centre allows the R-ROV to be operated 24/7, with pilots on regular 8 hours rotation onshore
- Arkwright has estimated that for a 10-day operation, an R-ROV can offer saving of NOK 4-5m versus a traditional vessel-based operation

Summary of key benefits to clients					
Traditional technology			R-ROVs (✓)		
1		<ul style="list-style-type: none"> <li>Offshore personnel is costly and involves significant HSE challenges</li> </ul> <div> <div></div> <div>\$</div> </div>	Save time		
			...reduce unnecessary stand by time		
2		<ul style="list-style-type: none"> <li>Expensive offshore transportation</li> </ul> <div> <div></div> <div>\$\$</div> </div>	Reduce cost		
			...reduce personnel, transportation and logistic costs		
3		<ul style="list-style-type: none"> <li>High logistic related costs throughout the project</li> </ul> <div> <div></div> <div>\$\$\$</div> </div>	Reduce CO2 footprint		
			...minimize environmental/CO2 footprint		
4		<ul style="list-style-type: none"> <li>Unnecessary standby time</li> </ul> <div> <div></div> <div>\$\$\$\$</div> </div>	Minimize HSE risk		
			...as less offshore personnel is required		
5		<ul style="list-style-type: none"> <li>High weather dependency</li> </ul> <div> <div></div> <div>\$\$\$\$</div> </div>	Reduce weather dependency		
			...as the ROV is located on the seabed		
6		<ul style="list-style-type: none"> <li>Limited reaction capability</li> </ul> <div> <div></div> <div>\$\$\$\$</div> </div>	Improve reaction capability		
			...through immediate availability of ROV assets onsite, 24/7 – 365		



# Hunter Group Q4 2017 – selected P&L and balance items

## P&L figures

NOKm	Q4 16	Q4 17	FY 16	FY 17
<b>Revenue</b>	<b>0.0</b>	<b>11.5</b>	<b>0.1</b>	<b>44.0</b>
Cost of goods sold	-0.1	-5.8	-1.6	-20.8
<b>Gross profit</b>	<b>0.0</b>	<b>5.7</b>	<b>-1.5</b>	<b>23.3</b>
Payroll expenses	-1.1	-7.9	-4.1	-27.5
Other operating expenses	-0.9	-7.2	-0.9	-26.5
<b>EBITDA</b>	<b>-2.1</b>	<b>-9.3</b>	<b>-6.5</b>	<b>-30.7</b>
<i>EBITDA margin (%)</i>	<i>neg.</i>	<i>neg.</i>	<i>neg.</i>	<i>neg.</i>
Depreciation and amortisation	0.0	-4.9	-0.1	-80.4
<b>EBIT</b>	<b>-2.1</b>	<b>-14.2</b>	<b>-6.6</b>	<b>-111.1</b>
<i>EBIT margin (%)</i>	<i>neg.</i>	<i>neg.</i>	<i>neg.</i>	<i>neg.</i>

## Balance sheet per YE 2017

Assets	FY17	Equity and liabilities	FY17
Intangible fixed assets	95.4	<b>Equity</b>	<b>415.1</b>
Tangible fixed assets	27.9	Non-current interest bearing det	11.7
<b>Total non-current assets</b>	<b>123.3</b>	<b>Total non-current liabilities</b>	<b>11.7</b>
Inventory	20.4		
Receivables	25.9	Payables	8.6
Cash and cash equivalents	279.5	Public duties owed	3.2
<b>Total current assets</b>	<b>325.8</b>	Current interest bearing debt	3.6
		Other current-liabilities	6.9
		<b>Total current assets</b>	<b>22.2</b>
<b>Total assets</b>	<b>449.0</b>	<b>Total equity and liabilities</b>	<b>449.0</b>

# Dwellop: Objective to become the leading offshore well intervention technology provider



**Innovative solutions and technology enabling swifter operations and eliminating non-productive operational time → increased ROI for oil cos**

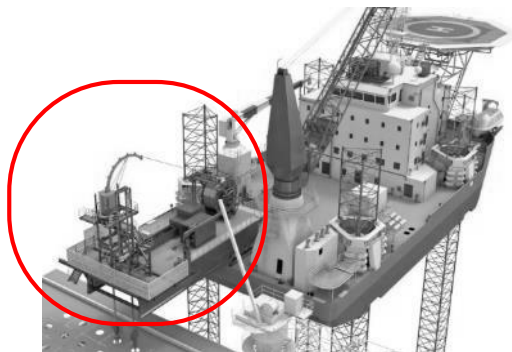
# Dwellop: Valuation proposition for selected products and systems

## Hunter Crane<sup>1</sup>



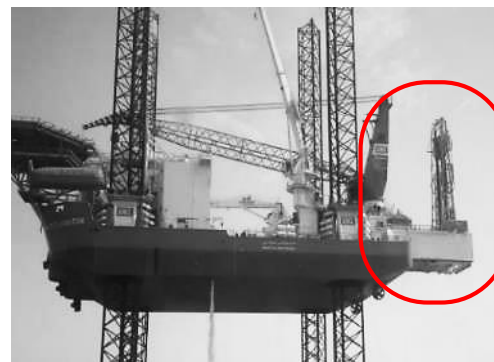
- Simops crane developed to solve efficiency issues related to the shadow well slots on the well head
- Mounted under drilling operations
- Preliminary assessment indicate an efficiency gain of up to 20% related to certain jack up operations<sup>2)</sup>
- Key markets: Global jack-up regions

## Well Intervention Cantilever



- Pre-rigged on a cantilever ready for wire line and coil tubing operations
- For smaller size liftboats
- 50% more efficient than current ways of performing well intervention
- Key markets: Middle-East and Asia

## Work Over Rig



- Right tool for performing well intervention and P&A operations
- Long cantilever reach: 135 feet for jack-up and 45 feet for lift boats
- Significantly improved operation efficiency, in combination with lower costs for well intervention and P&A
- Key markets: Global jack-up regions