Geometrica Fund

Absolute return

July 2024

Stock story – DOF Group – the longest goodbye

Contrarian • Deep Research • Better Outcomes

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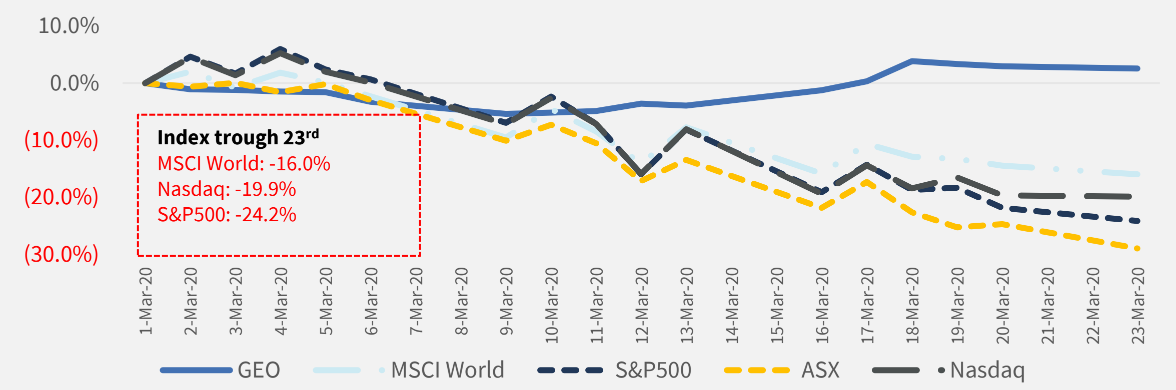
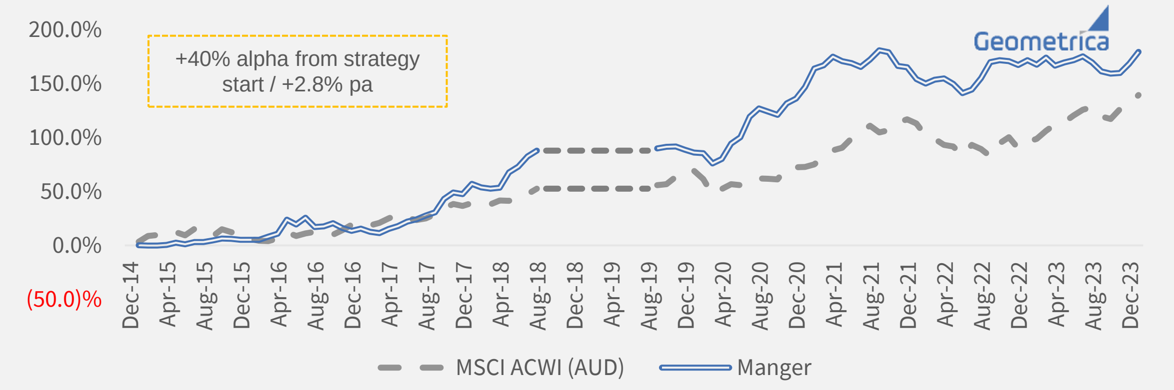
About us

History of protecting capital in difficult market conditions…



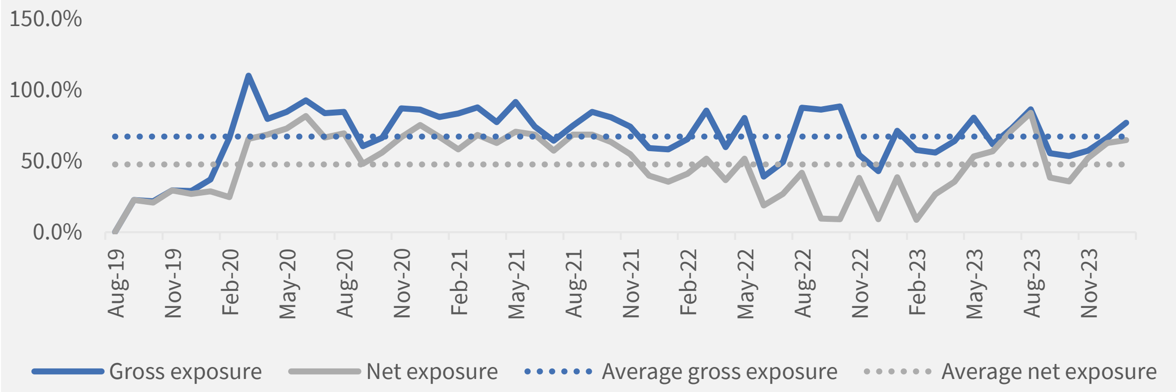
S&P500 is S&P500 Total Return Index, ASX is S&P/ASX200 Total Return Index

….allowing compounding returns



Source: Mainstream, ASX announcements, Geometrica and Bloomberg. Performance is after all fees. Performance period is from January 2015 (excluding the period of September 2018 – August 2019; Manager left CVF in August 2018 and began Geometrica in September 2019). MSCI = MSCI ACWI (AUD).

With typically low leverage…



Source: Geometrica

…driven by data based stock picking

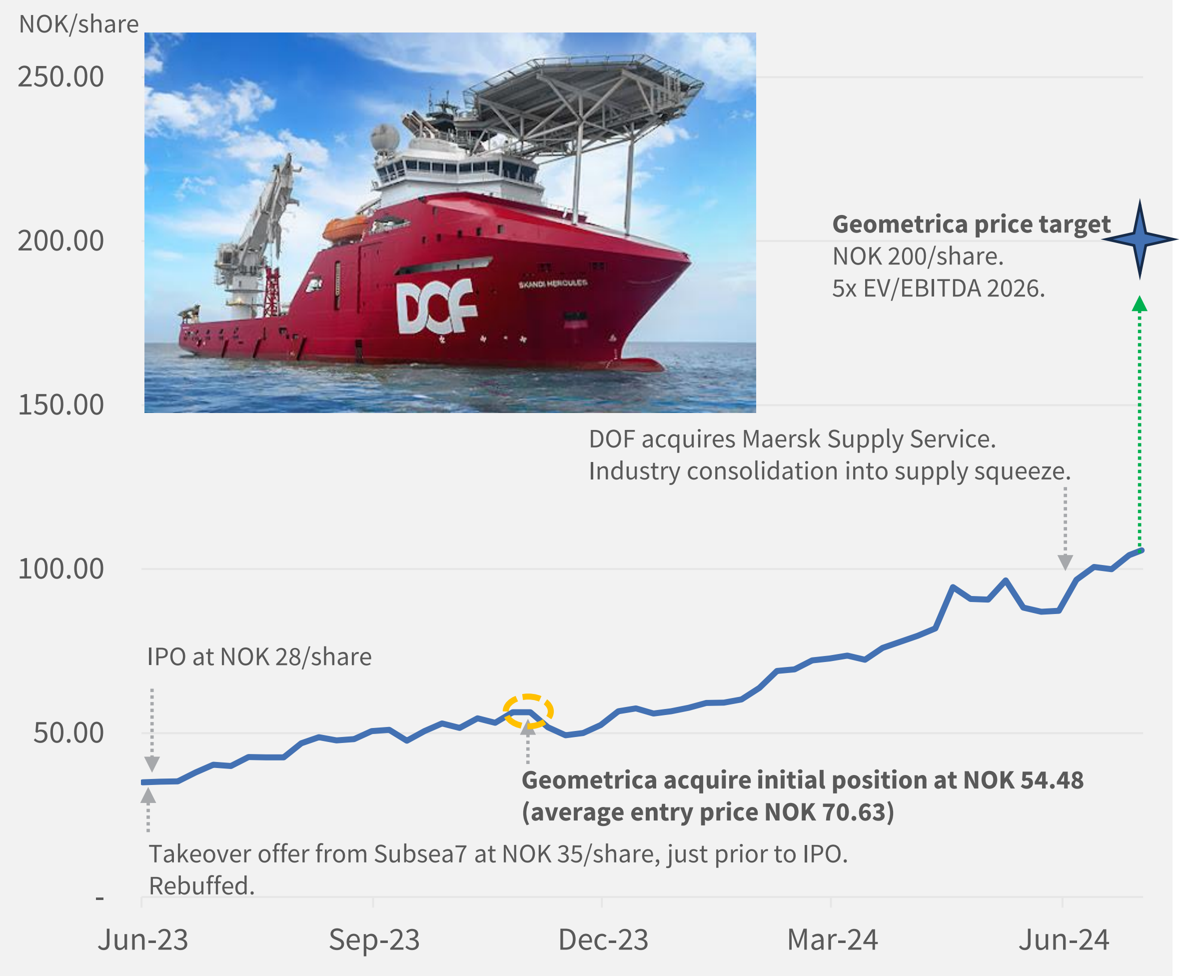
What we DON'T do	• Invest based on consensus views, i.e. doing the same thing as everyone else… • …as this tends to lead to mediocre returns
Geometrica's Approach	• Find situations where a perceived **contrarian** outcome is in reality the probable outcome • **Data-driven / evidence-based** investment process • Invest for the period of time where non-consensus change occurs, driving earnings surprise and multiple expansion.

DOF Group

Overview

- Norwegian listed. Mkt cap US$1.8bn[1]
- Owns a fleet of high specification Offshore Supply Vessels ("**OSVs**")
  - OSVs typically used in offshore oil & gas industry
  - DOF revenue model is asset based (term lease of OSVs) and services (IMR[2], subsea, light construction, decommissioning)
  - Increasingly used for offshore wind
- DOF delisted in early 2023 for creditor led restructuring:
  - Debt to equity swap wiped out legacy equity holders
- Relisted in mid 2023 at NOK 28/share:
  - 4.9x 2022 trailing EV/EBITDA…at trough margins
  - Listed *after* receiving a takeover bid at NOK 35/share[3]
  - Material upside just starting to be realized…

DOF Group (mkt cap US$1.8bn at NOK 105.70/share)



Source: Oslo stock exchange, Bloomberg, Company, Geometrica

1 At share price of 105.70 at 24 July 2024. (Pro-forma market cap is $2.4b based on recent transaction to acquire MSS)
2 IMR = Inspection, Maintenance, Repair
3 Subsea7 (ticker SUBC.NO) offer for 100% of equity. Subsea7 is Tier 1 offshore / subsea engineering firm. Key competitor TechnipFMC have 50% JV with DOF Group subsidiary DOFCon. Acute shortage of subsea OSVs likely motivator for bid.

DOF Group – upside drivers

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Low starting expectations	• Business failure in early 2023 due to excessive leverage. Debt haircut / debt to equity swap wiped out legacy shareholders • Relisted mid 2023. Creditors as largest shareholders. Creditor equity overhang constrained valuation. • Relist price NOK 28/share
Acute OSV supply squeeze	• DOF focused on subsea services. Subsea backlogs at record highs and growing…but OSV fleet is ~30% smaller than prior peak • Contract terms improved. Client "termination for convenience clauses" are being deleted • **New contracted rates are materially higher than at time of IPO. As DOF contract book rolls onto these earnings rise rapidly**
Capital structure normalisation	• DOF will generate free cashflow equivalent to over 20% of mkt cap in 2025 and over 25% in 2026 • Currently obscured by creditor cash sweeps in 3 of 5 divisional credit silos • Expect refinancing in 2025. Chairman of Board has noted intention to distribute cash to shareholders • DOF becomes a distribution story in 2025…at forward 2026 FCF yield of over 20 when comps trading at ~10-12%
Life after oil	• Wind installations rising rapidly. Floating wind may be a game changer • Compco MMA Offshore[1] acquired by Wind OSV company recently…Wind stocks trade at valuations materially higher than oil • Life after oil…potentially augurs for higher valuation multiple over time

1 MMA Offshore Acquired by Cyan Renewables, a Singapore based private equity funded vehicle with no operating fleet at the time of the bid. Around half of MMA's workflow was at the time non-hydrocarbon based and growing.

#1: Low investor expectations

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2014 and 2020 oil price shocks drive steep cuts in development

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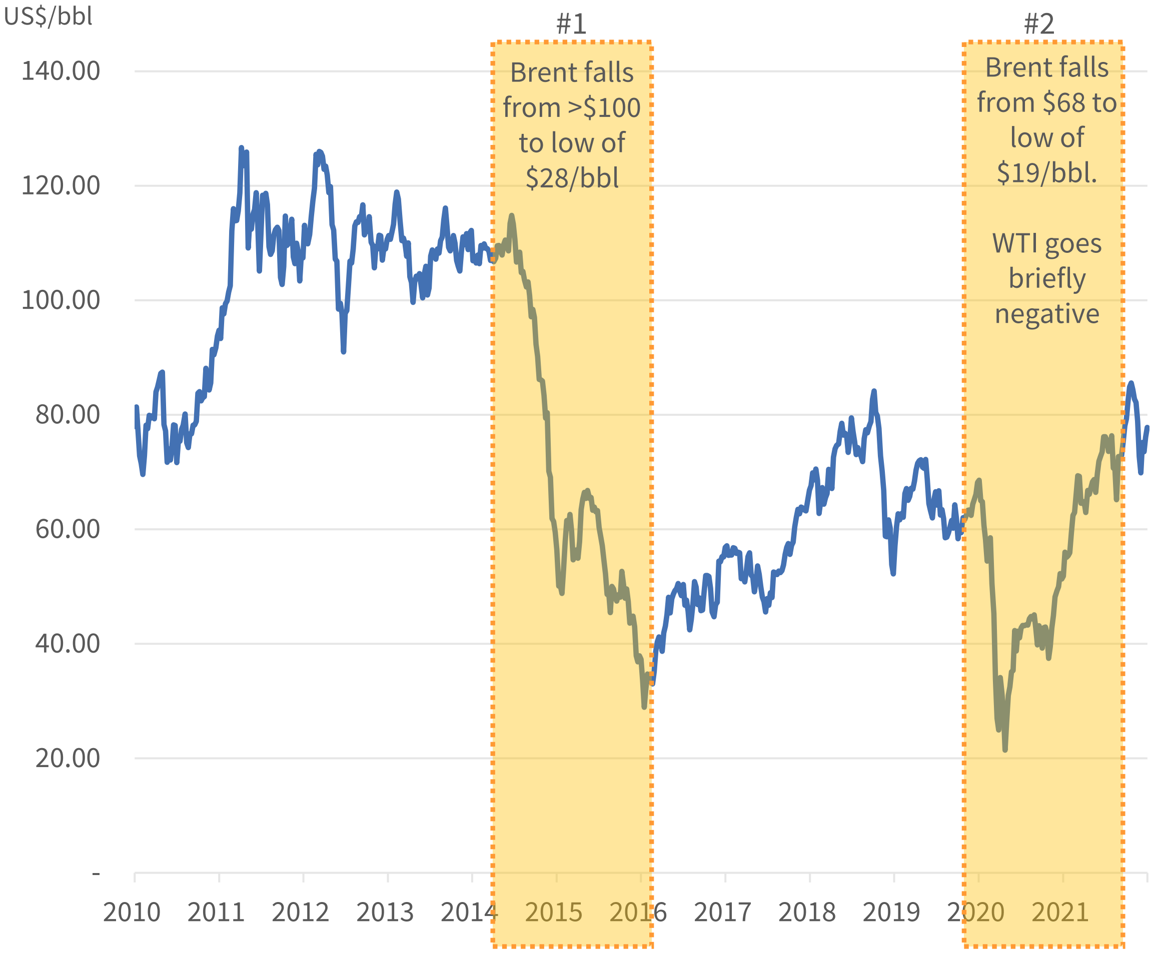
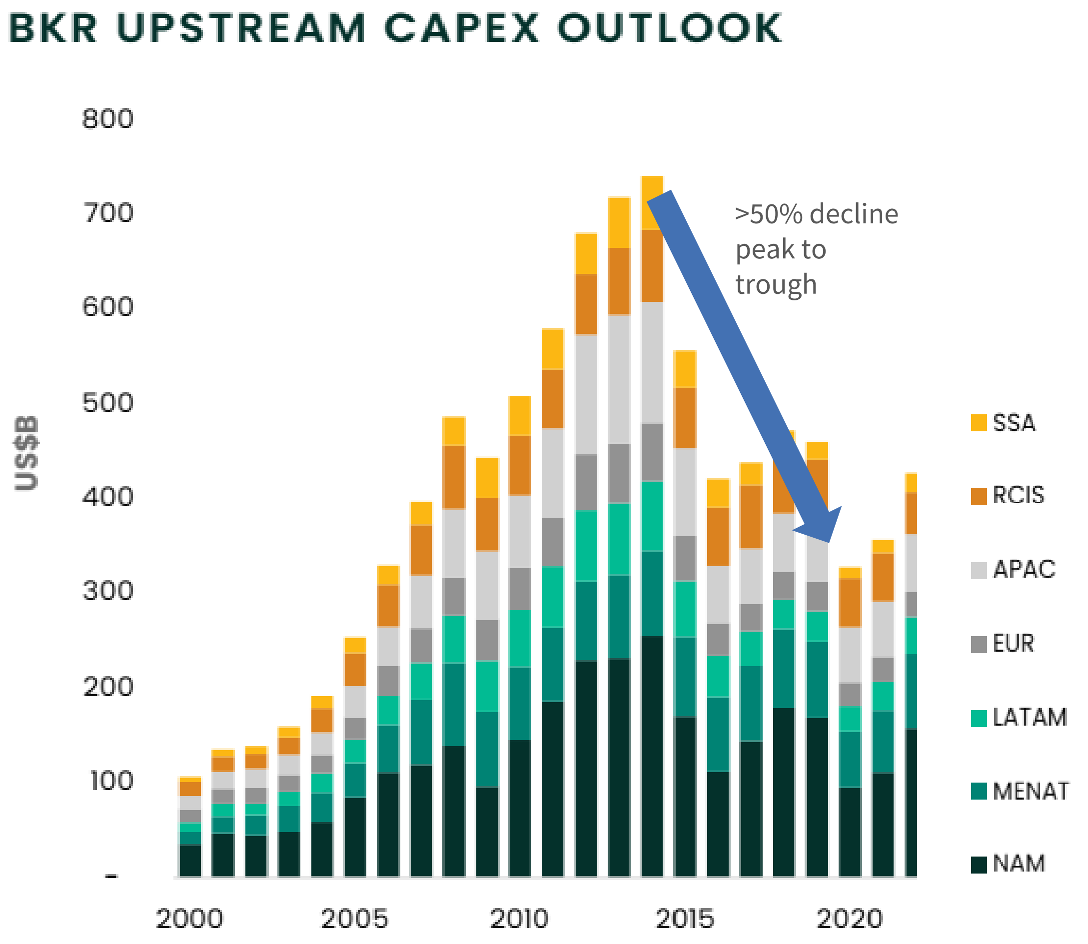
Oil price collapses…twice!



Source: Bloomberg, Geometrica

Upstream activity plunges in response[1]

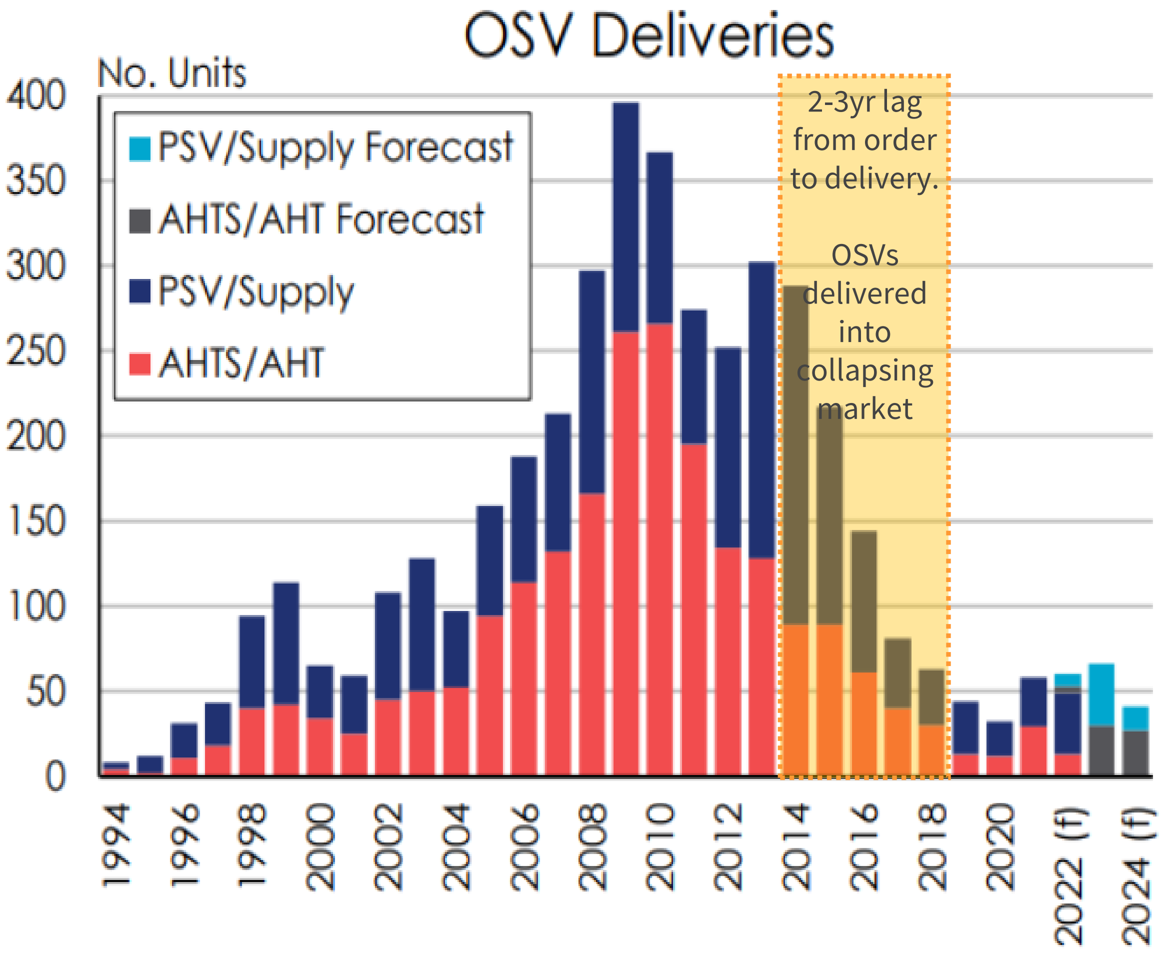


Source: Baker Hughes

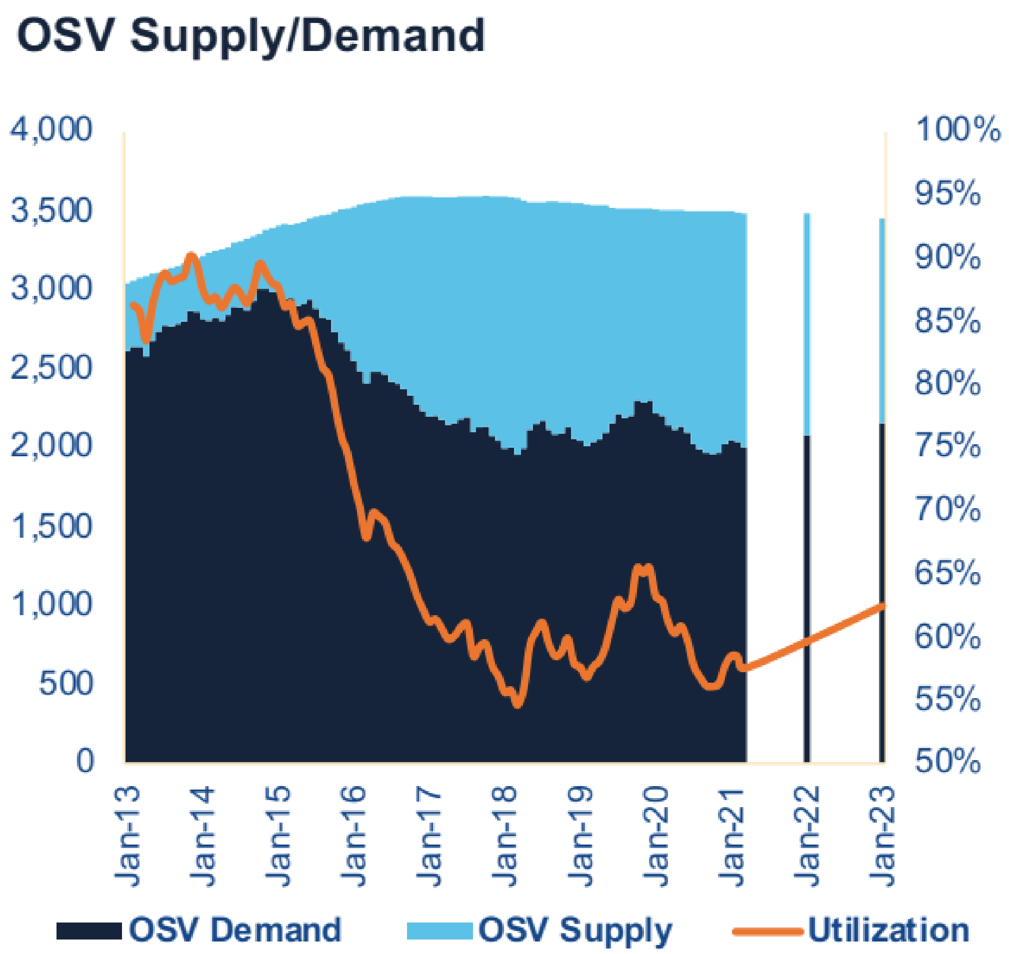
[1] Investor focus post 2014 price collapse increasingly on shareholder returns over singular development growth focus

Time lags between order and delivery see OSV utilization fall

But OSVs ordered years earlier keep getting delivered…



…driving down fleet utilisation



DOF's share price collapses on excessive financial leverage

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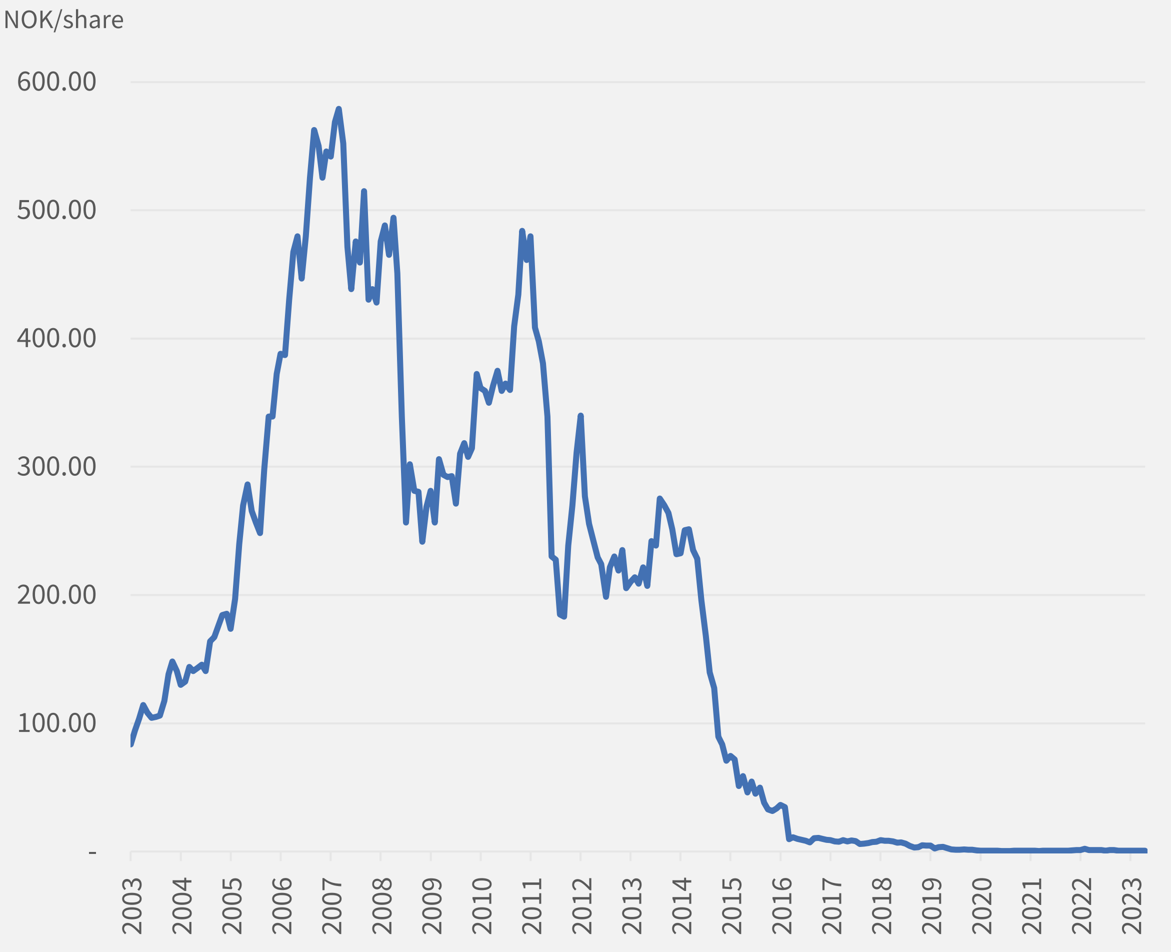
Excessive leverage in cyclical industry into a downturn

- DOF was highly leveraged as oil price shocks occurred in 2014 and again in 2020
- Between 2014 to 2017 EBITDA fell from US$544m to US$71m
- In **2022 gross debt of US$2bn** vs **mkt cap of US$18 million**
  - DOF was a debt zombie sleepwalking into a period of rapidly rising interest rates
- Early 2023 DOF's creditors enforce restructuring
  - Debt haircut / swap to equity.
  - Restructured credit package involved 4 borrower group silos, cash sweep features, customary cross default and acceleration[1]
  - Fleet contracted for revenue certainty…at the bottom of the cycle
- Restructured credit package featured below market interest rates, but also key maturities in early 2026
  - Spectre of possible refinancing risk and persistent (and ongoing) creditor block trades constrained valuation at relisting

DOF share price collapses



Source: Bloomberg, Geometrica

[1] Credit Agreements not released, however key features summarized in listing prospectus.

#2: Supply / demand imbalance

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Supply / demand imbalance to persist for many more years

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2014 - 2022
OSV fleet size cut ~30%

- Extended downturn in OSV market from 2014 to 2022
- Around 30% of OSVs scrapped or permanently modified
- Prolonged period of underinvestment in hydrocarbon sector…sowing the seeds for the next boom

Record demand for subsea OSVs

- Offshore potential for lower unit cost / lower CO^2 intensity. Large multiyear projects (Brazil, Guyana)
- Combined order books for Tier 1 subsea engineering firms[1] larger than prior 2013 peak and growing
- Offshore wind as a rapidly growing demand driver

Limited new build orders for OSVs

- Fleet size down ~30% from prior peak
- Significant reduction in new build yard capacity
- Still limited new build orders; day rates still below incentive price. Lack of financing available.
- Drive multi-year positive conditions

1 TechnipFMC, Subsea7 and Saipem generally recognized as Tier 1 offshore engineering firms

Industry Backdrop

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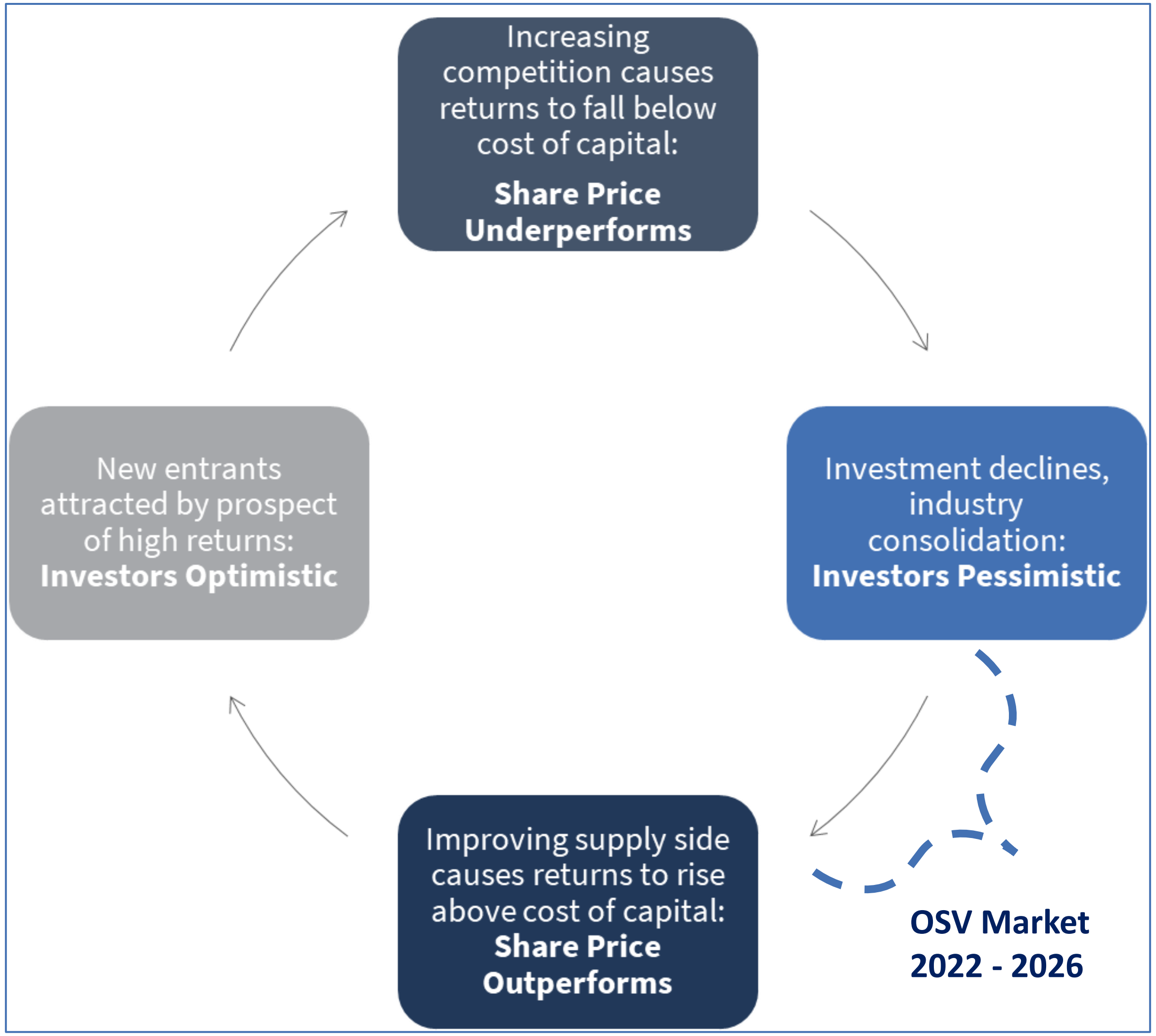

- OSV Market is the first derivative of the oil price.
- O&G capex responds to the price of oil. As capex increases so too does the demand for OSV's.
- **OSV market collapsed from 2015** post oil price collapse from a Saudi induced price war for market share with US shale.
- Utilisation and day rates fell for OSV's which **disincentivised new supply** – many vessels were laid up / sold for scrap
- Just as the industry was starting to recover in 2019/20, along came COVID – oil price went negative, OSV rates remained depressed.
- Covid reopening coupled with stimulus drives rapid improvement in oil demand and price, then is exacerbated by Ukraine war.
- **Day rates for OSV's rapidly improve from 2022** as offshore Oil & Gas projects become economical.
- **No supply response** due to lack of financing, higher credit costs, uncertainty on long run oil demand, low shipyard availability, and obsolescence risk.
- **Orderbooks remain at all time lows**, with 3 year lead times for new builds.

Constrained supply

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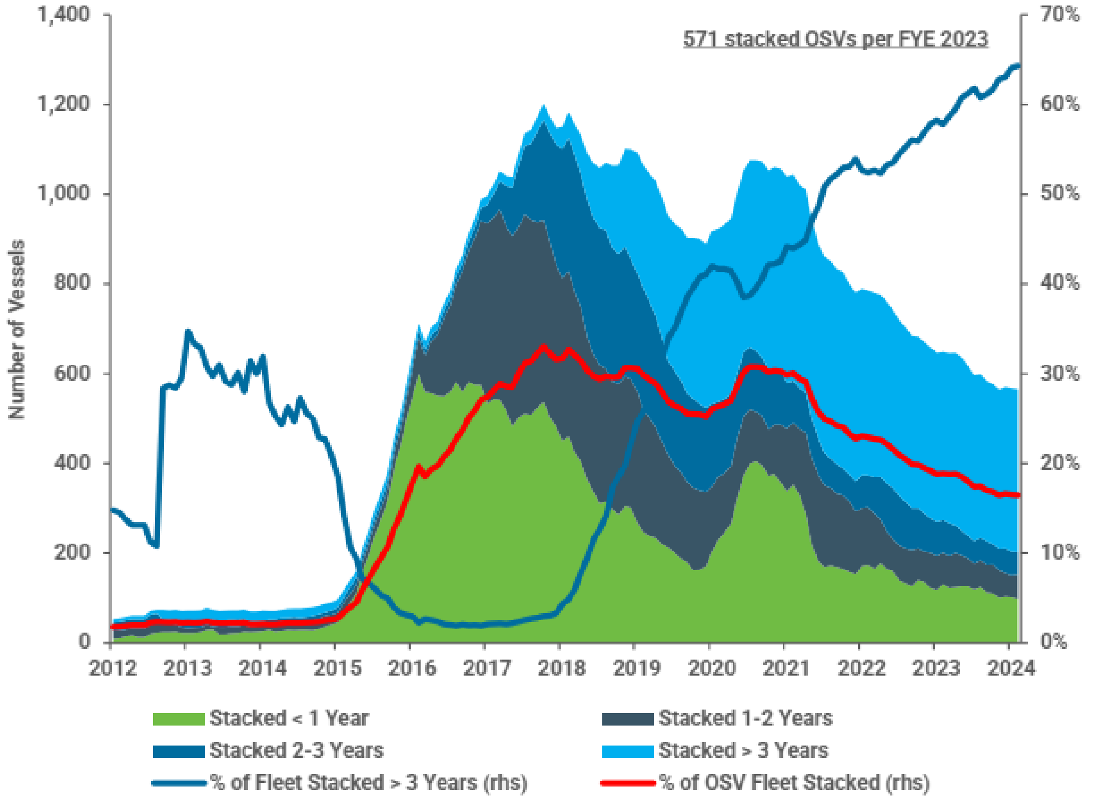
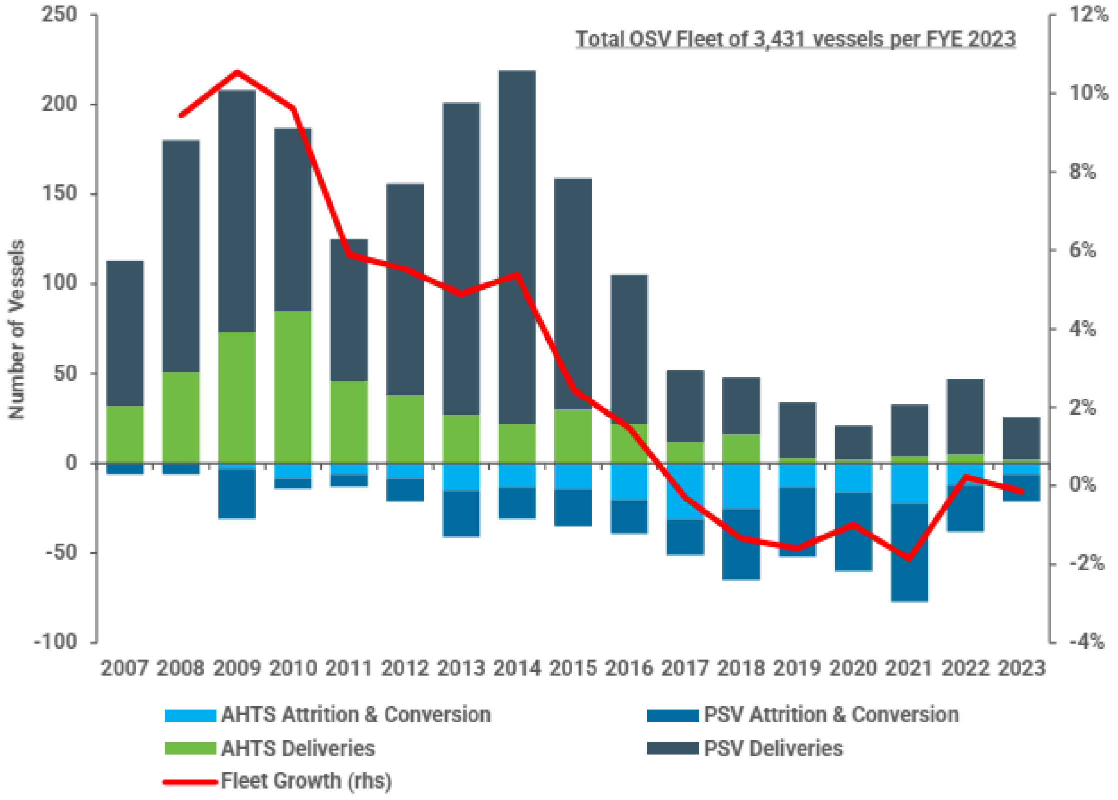
Aging Stacked Fleet



Limited Supply



Limited orderbook, constrained financing and continued development of local cabotage leads to a favorable supply and demand balance

Source: Seacor Marine investor presentation

Aging fleet

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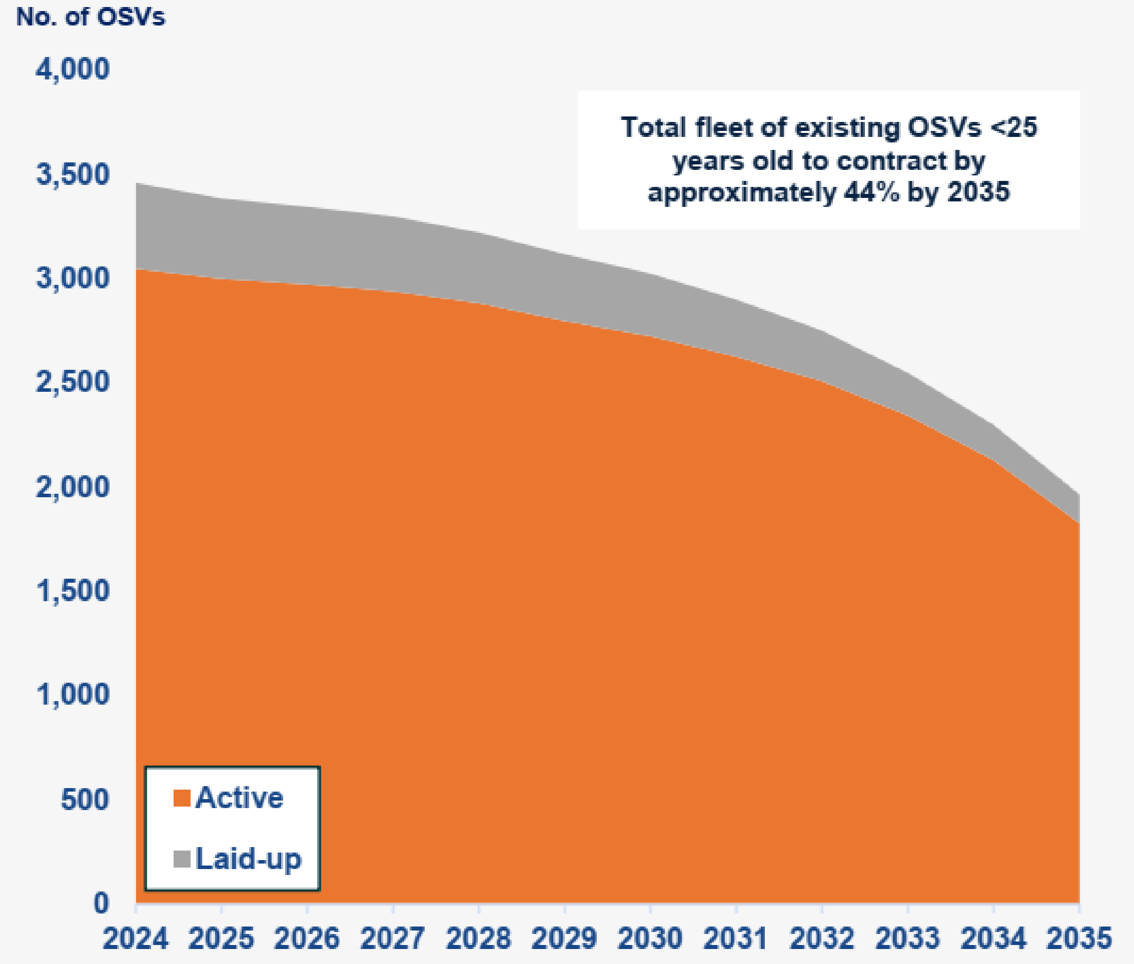
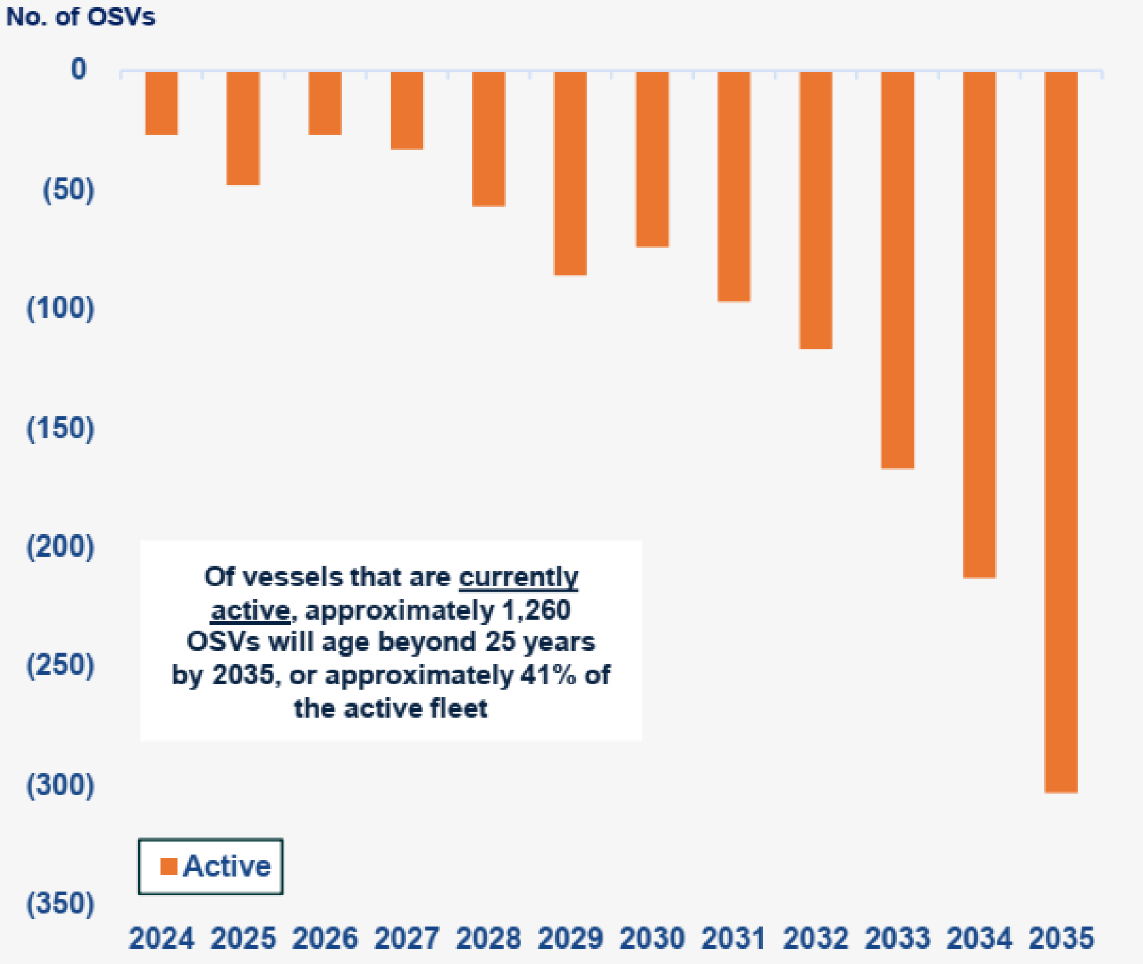
Global OSV Fleet – Vessels <25 Years Old



Active OSV Fleet Attrition – Vessels To Age Beyond 25 Years



Source: Tidewater, Spinergie as at February 2024.

Limited new supply…and long lead times

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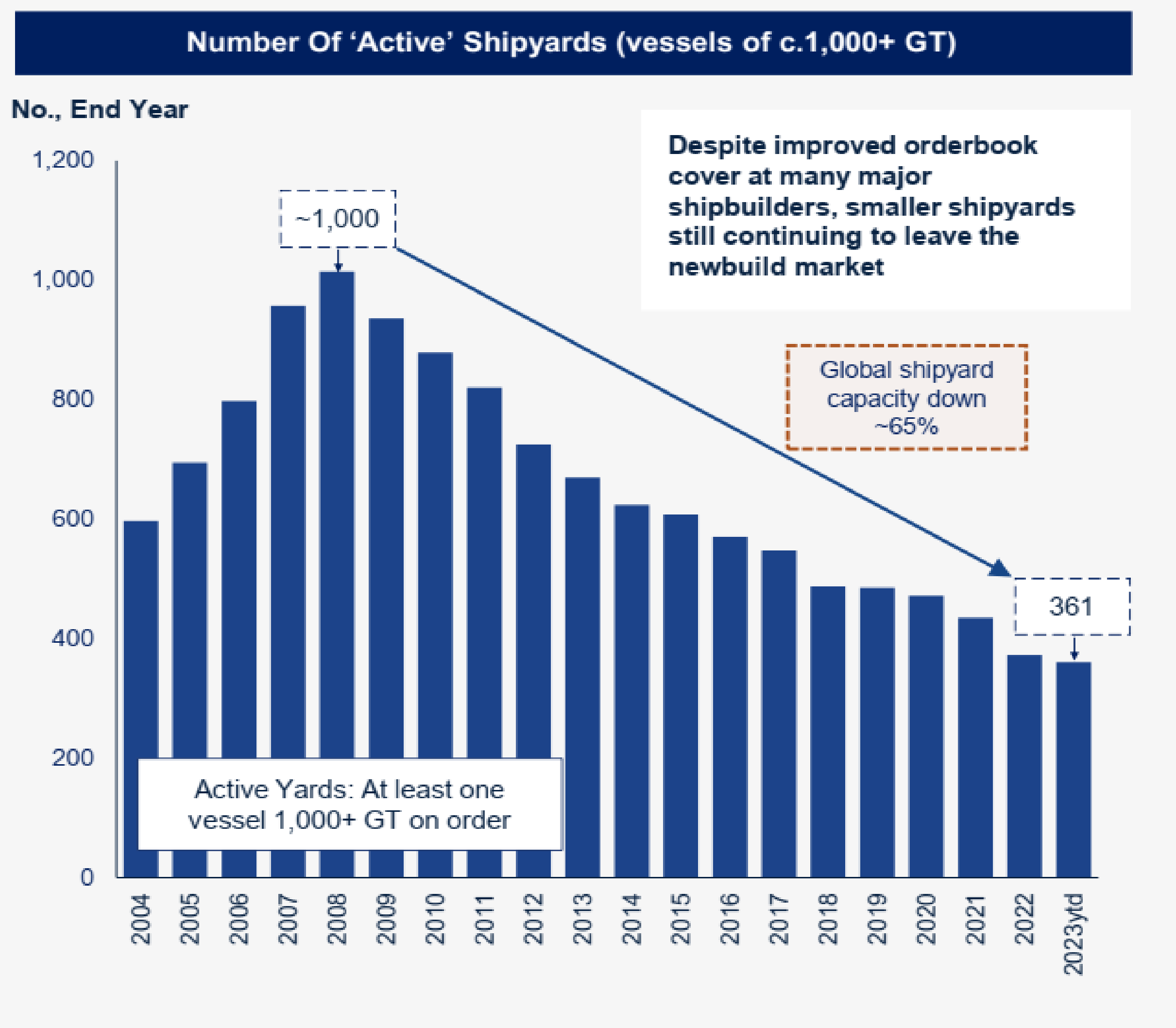

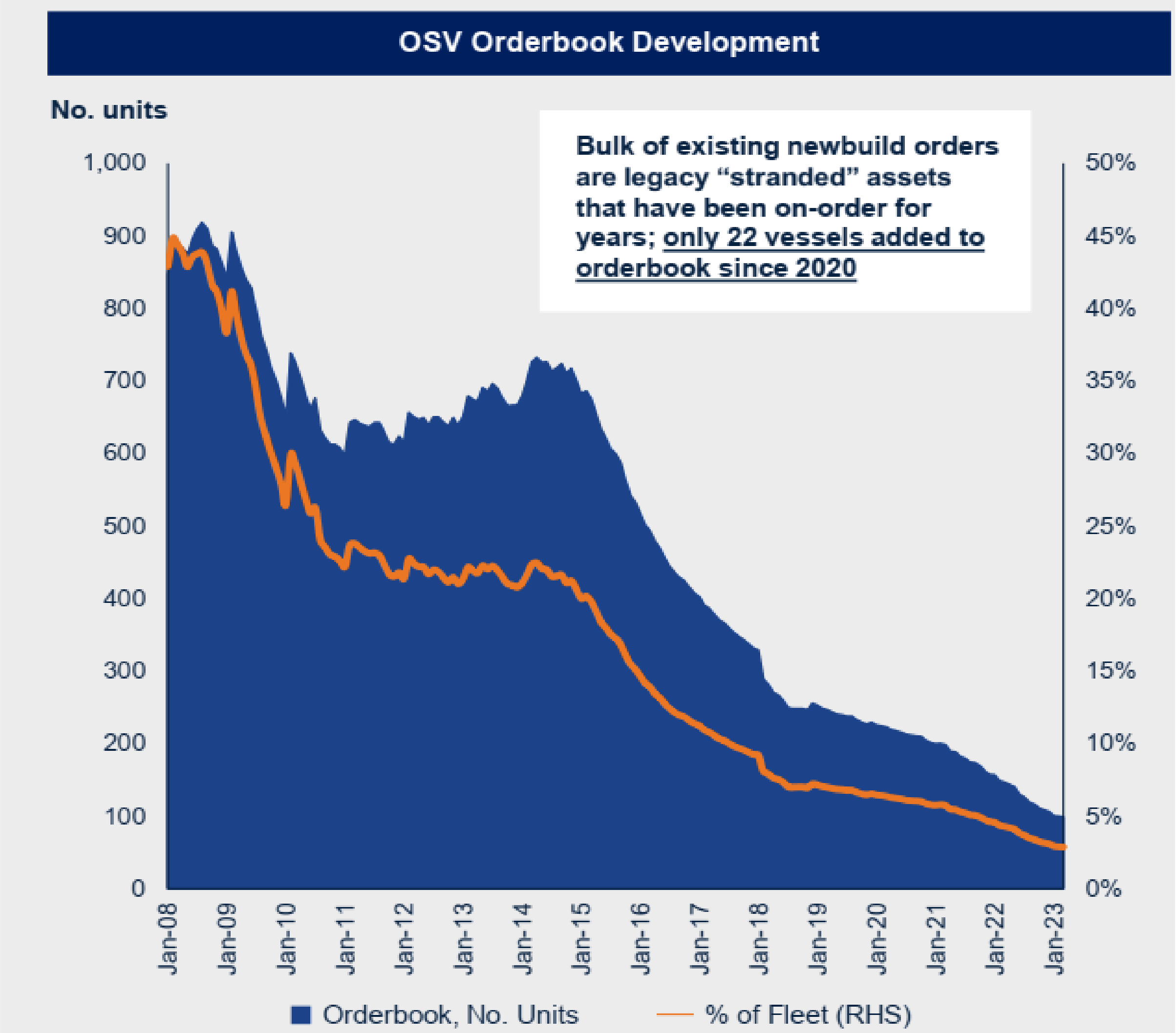

Source: Tidewater, Clarksons Research as at March 2023.

Booming demand

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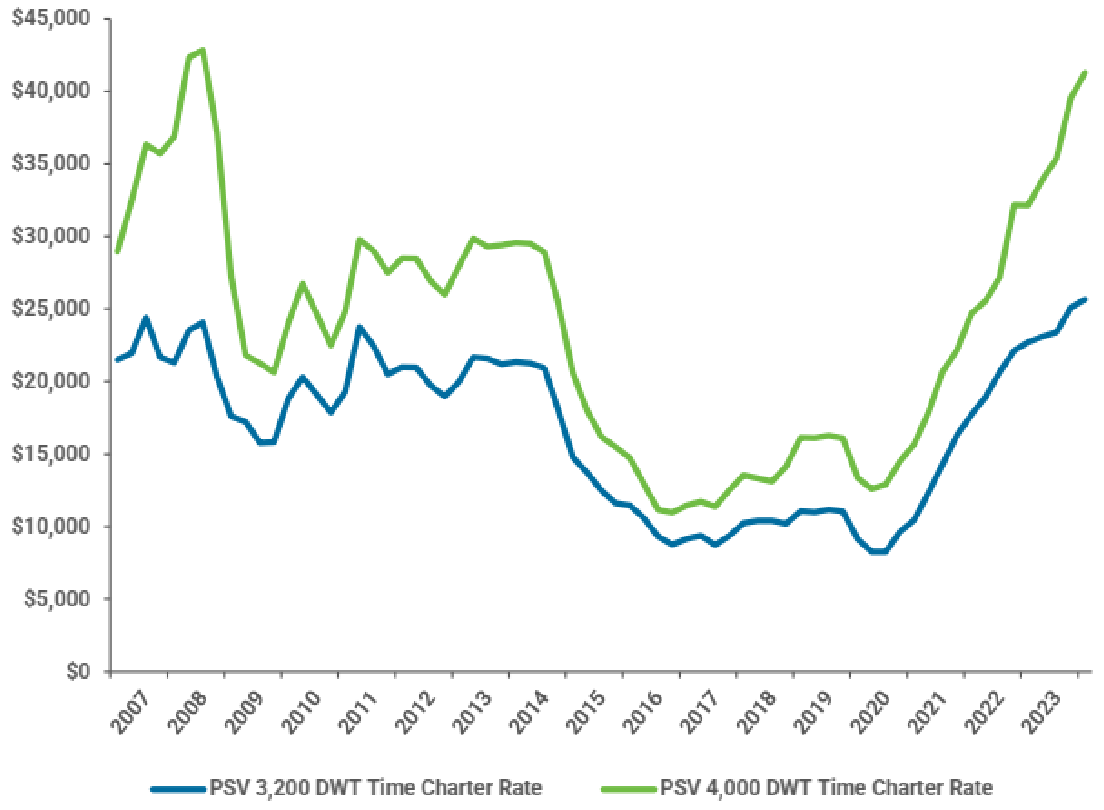
Global PSV Average Day Rates



Global PSV Average Utilization

Contracting terms and duration improve in addition to PSV average day rates and utilization

Source: Seacor Marine investor presentation

Booming demand

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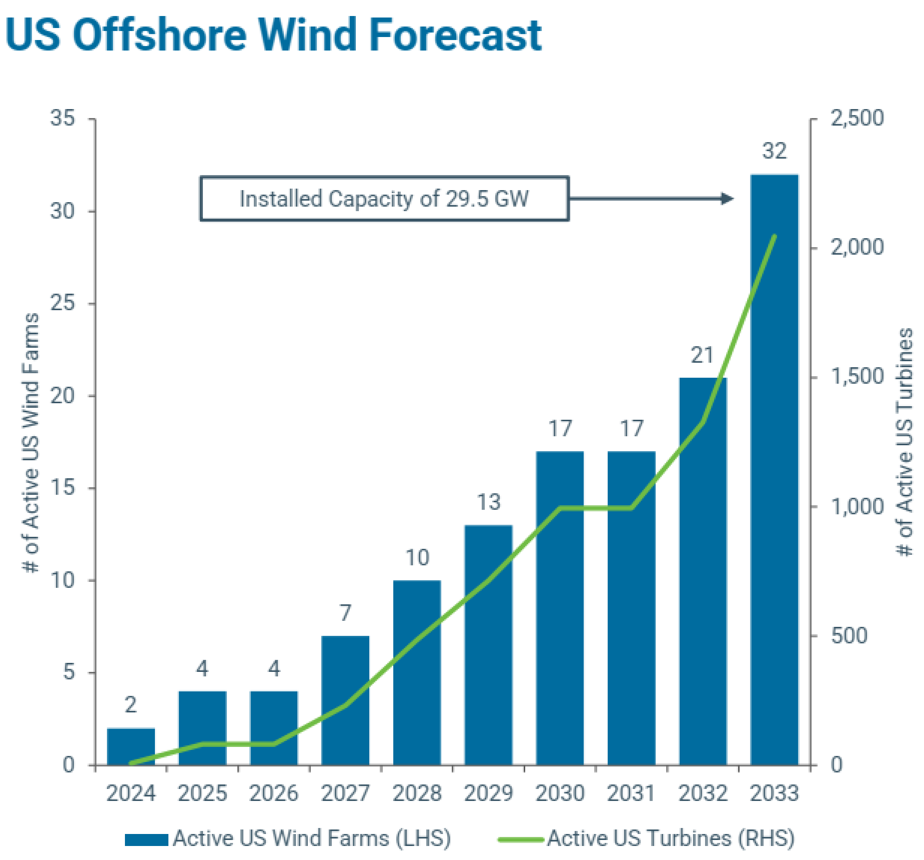
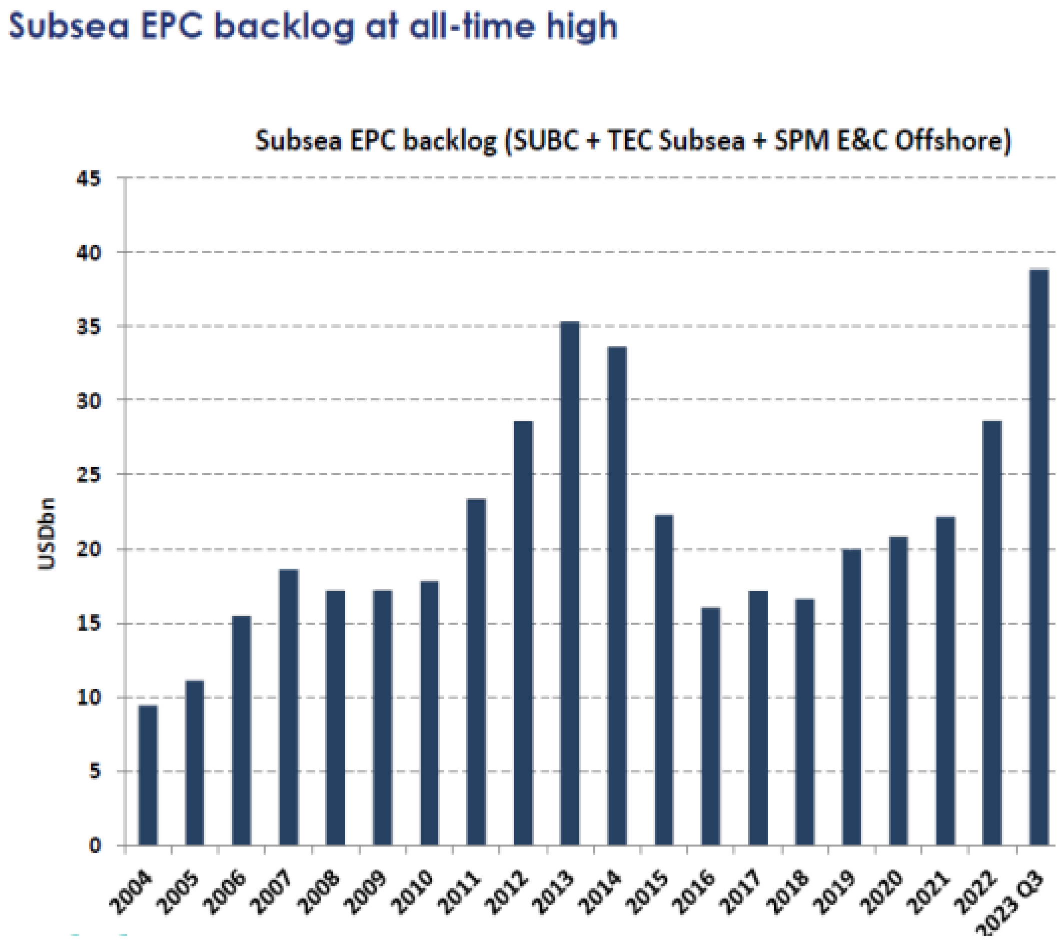
Emerging demand – offshore wind



Booming demand – hydrocarbons (subsea)



Source: MMA 1H 2024 results

Setting up for a period of high spec OSV excess returns

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“ Since 2015 ***new-build deliveries have sharply declined****…last five years merely 177 units…built and delivered.”*

“From August 2016, when the number of vessels serving the energy sector peaked to June 2023, ***OSV tonnage was reduced by 330 units****”*

“the price of a new-build PSV is skyrocketing. However, the list of vessels that are for sale has been shrinking, which could pressure the price of used vessel ”

“most of the OSV companies have been very reluctant to start constructing new OSVs. Trade sources have said that for OSV companies to commence building new vessels, it would be necessary to have the collaboration of both IOCs and NOCs by ensuring long term contracts”

“+4,000 dwt PSVs and +15,000 bhp anchor handling tug supply (AHTS) vessels will be among the most in-demand tonnage in the short and mid-term”

”For the mid-term it is anticipated that the ***industry may face a severe shortage worldwide****”*

“Moreover, for the next three years, we will see more pressure not only from the increasing activity in oil and gas but also from ***offshore wind****”*

Source: spglobal.com/commodityinsights/en/ci/research-analysis/osvs-fleet-ages-worldwide-.html

#4: DOF: Economic rent trap

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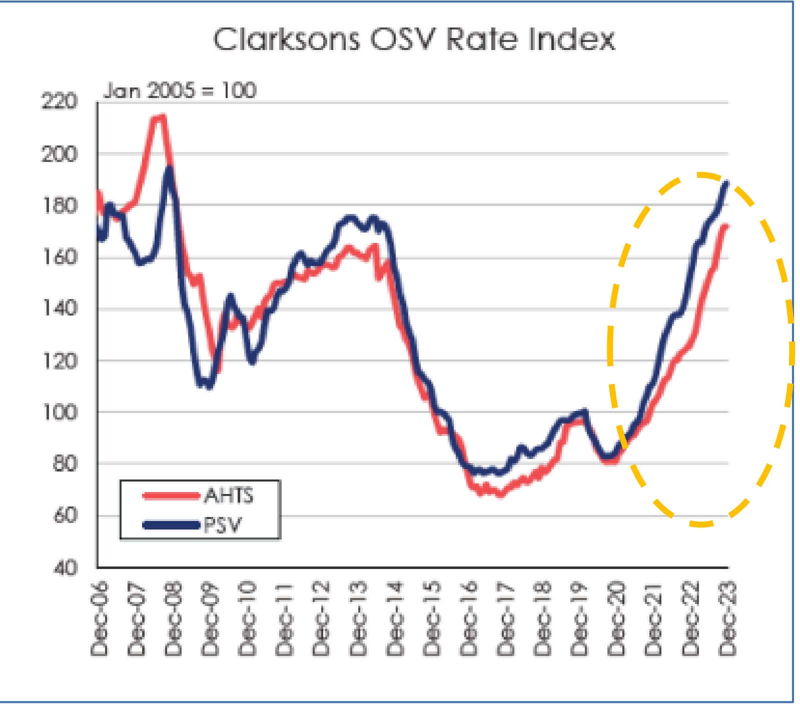
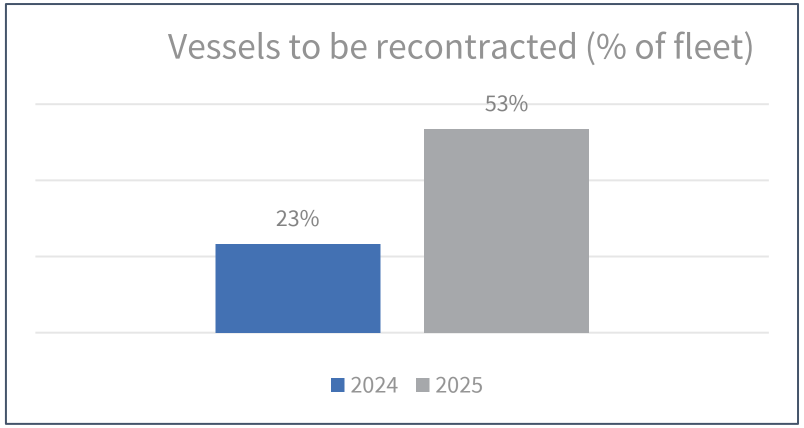
Large upside on spot day-rates…

- During the debt restructuring, DOF signed multiple 3 yr contracts in FY21 and FY22 for their vessels when rates were at trough levels.
- The day rate pricing is fixed for the duration of the contract
- **<u>As DOF recontracts in FY24 & FY25, they will recontract at day rates that are ~2x current realised rates.</u>**
- Over half the fleet will recontract in the next 12 months onto new 3 year contracts.





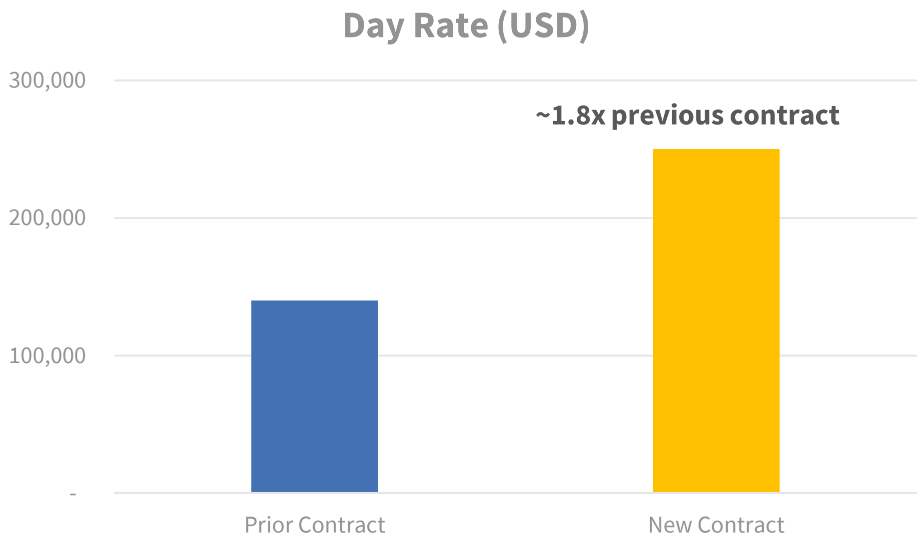
Source: Company announcements sourcing Clarksons, Geometrica

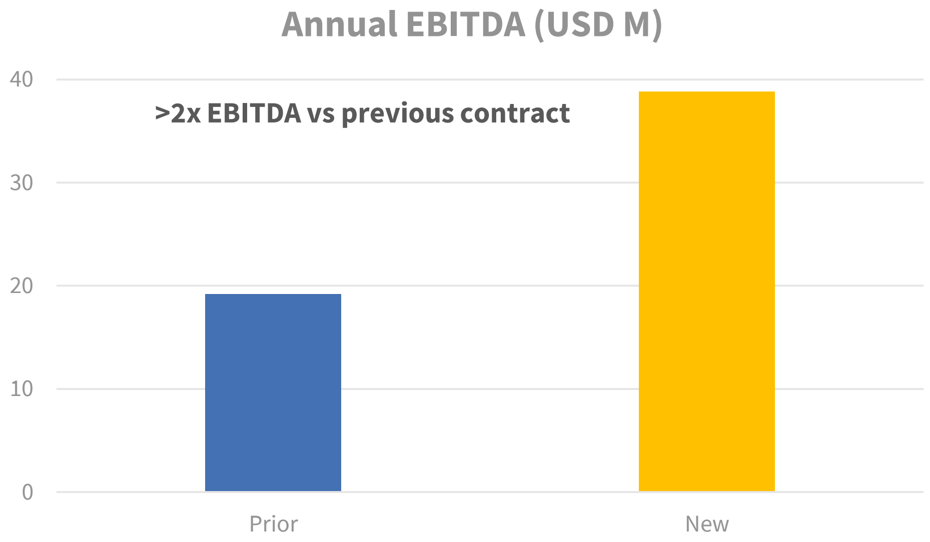
Large upside on spot day-rates…

Recent contract announcements indicate this dynamic is playing out.

24th June 2024:

DOF recontracts Skandi Niteroi – a PLSV – on a new 3 yr contract term starting 1Q25.
The contract more than doubles the EBITDA for the vessel





Source: Company announcements, Geometrica analysis

… and day rates are going higher

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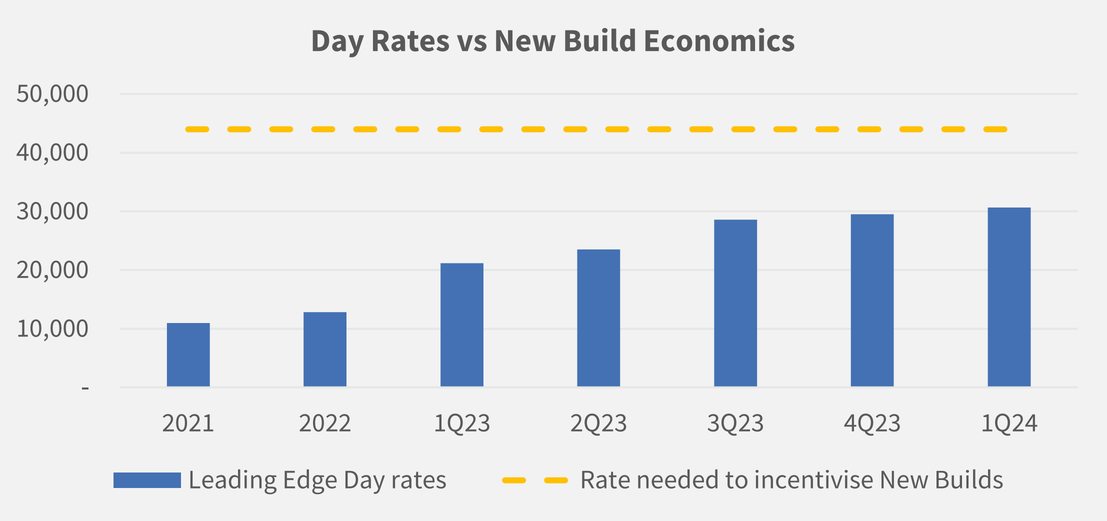

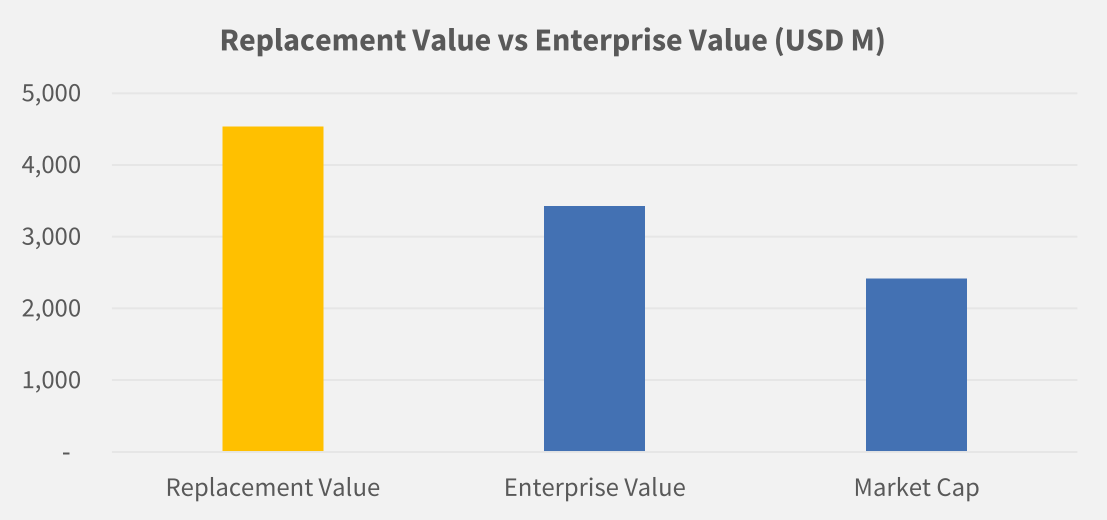

We remain encouraged by the outlook for demand over the coming years and by the persistent tightness in vessel supply. ***Newbuilding vessel orders still have not materialized in any meaningful way, providing for a significant runway of time before new vessel supply can enter the market***

Tidewater CEO: May 2024

We remain optimistic on the ***continued pace of offshore activity acceleration as a result of the constructive leading indicators*** *we observed during the first quarter.*

Tidewater CEO: May 2024

Yes, we are still bidding in contango (prices higher than spot market) on longer term contracts

Competitor CFO: June 2024

#5: DOF: Deleveraging & Refinancing

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All the stars are aligning for DOF to pay material returns

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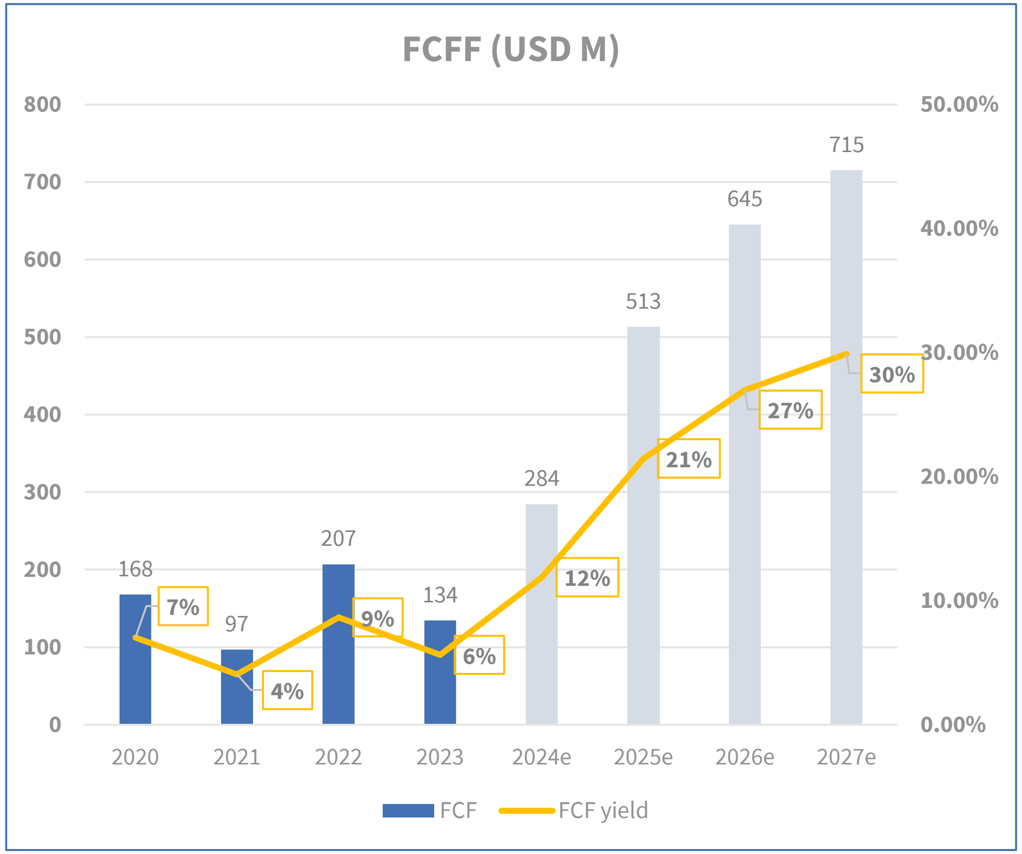
1. **Earnings set to surge** as legacy contracts reprice into tight and rising market
2. **Leverage rapidly falling** next 12 months to similar levels where reference bond trades at attractive levels
3. Lower leverage and open credit markets will **allow DOF to selectively refinance existing debt packages featuring dividend stoppers**…allowing allocation of surplus capital back to shareholders
4. **Chairman of DOF has been explicit in communicating intention to "pay back" shareholders**
5. At current day rates in DOF will roll onto material free cashflow and dividend / buyback payment capacity
6. Comparable companies in the hydrocarbon sector trading at free cashflow yields less than half that of DOFs

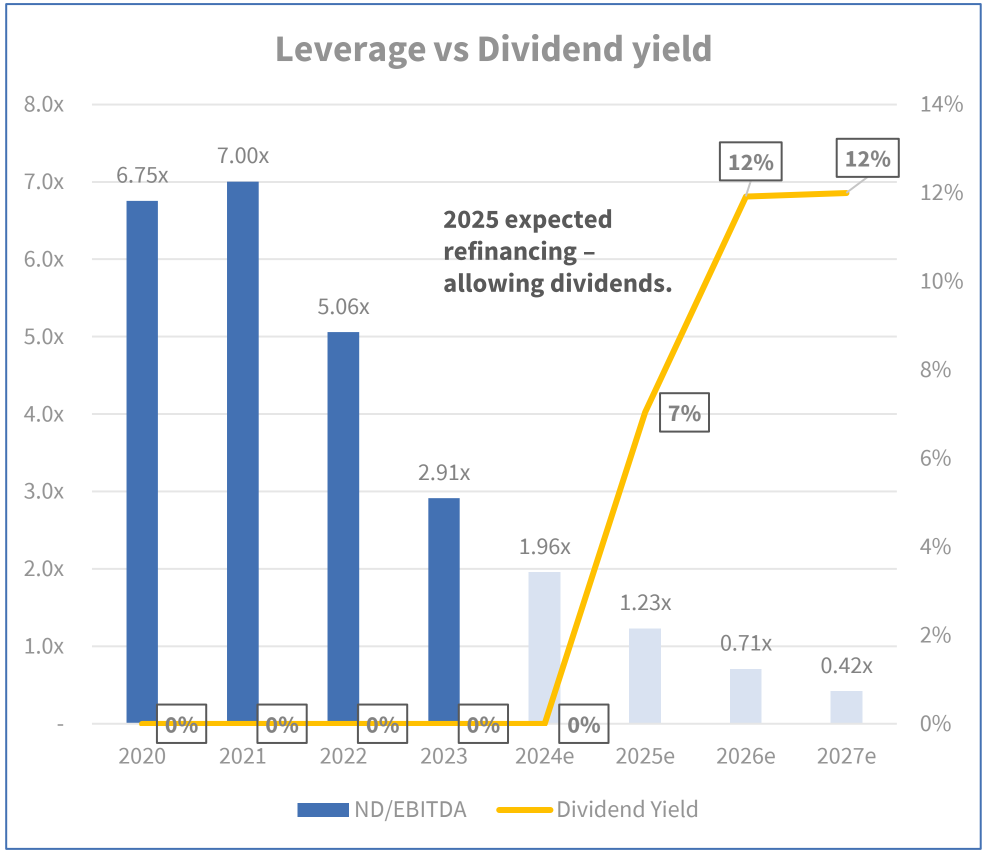
Deleveraging & Capital Returns

Geometrica Fund

FCF poised to surge next 3 years – underwritten by long term contracts. Rapid deleveraging, refinancing and dividends to follow.



Source: Company announcements, Carnegie and Geometrica



Source: Company announcements, Carnegie and Geometrica

DOF's credit structure constrains shareholder returns…for now

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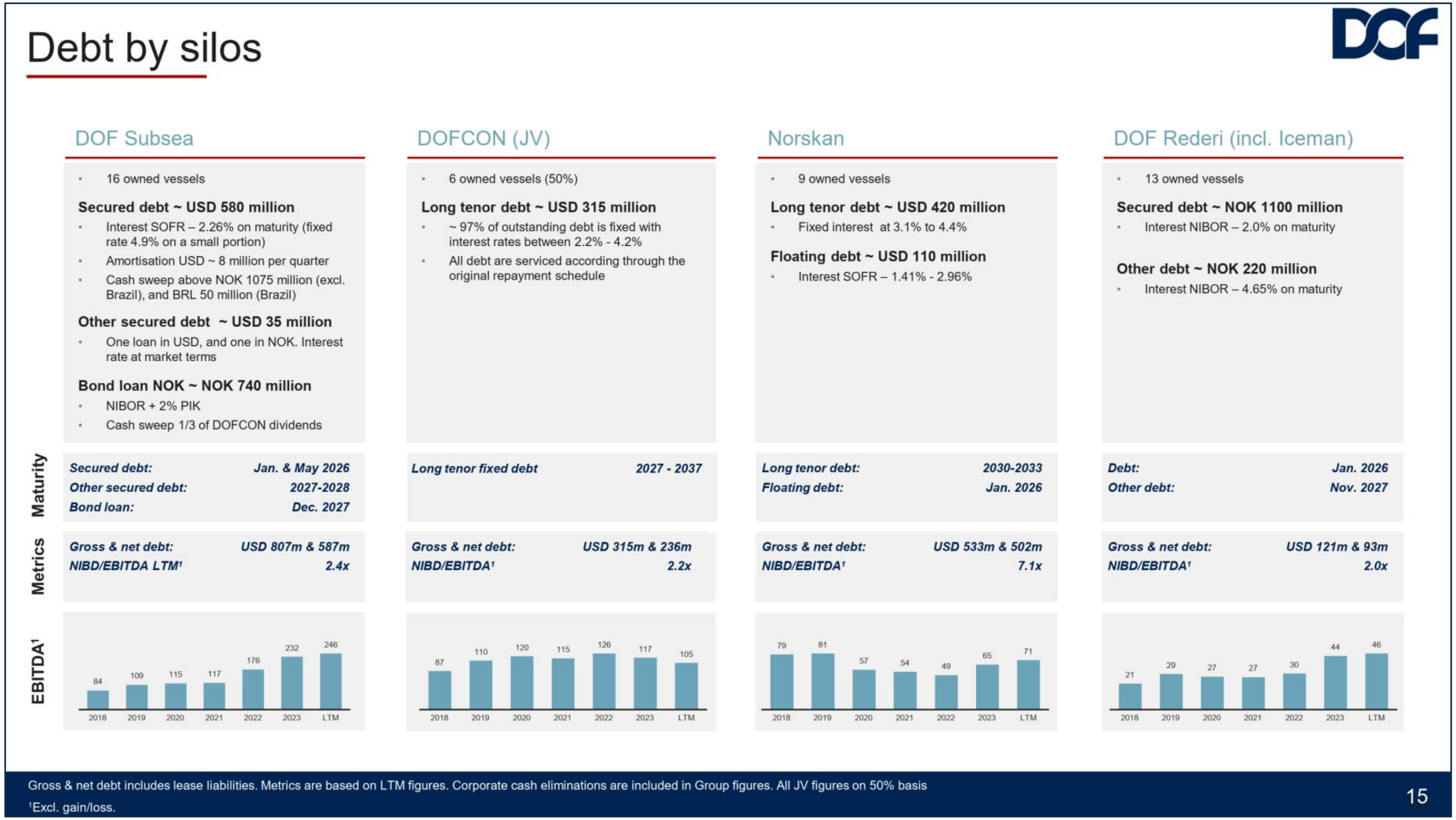
- 4 borrower entities or credit silos[1]
- Several subject to cash sweep
- Lower than market interest rates…but early 2026 maturities in 3 of 4 silos
  - At IPO perceived as refinancing / service cost step up risk
  - Given strong cashflows we think opportunity
- Free cashflow yield north of 20% from 2025
  - Oil producers in the Canadian tar sands sector trade at 10% FCF yield since focusing on shareholder returns



Source: DOF Group. 2024-1Q results presentation

[1] Prior to the acquisition of Maersk Supply Services announced in July 2024

DOF debt silos post Maersk Supply Services acquisition

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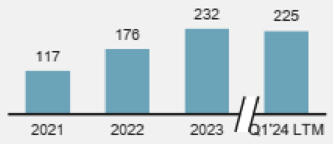
DOF Subsea

Gross debt	USD 807m
NIBD	USD 587m
LTM NIBD / EBITDA(1)	2.6x

EBITDA '21-'23(1) (USDm)

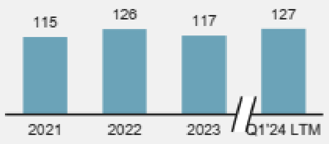


Cash sweep

DOF Con JV (50%)

Gross debt	USD 315m
NIBD	USD 236m
LTM NIBD / EBITDA(1)	1.9x

EBITDA '21-'23(1) (USDm)

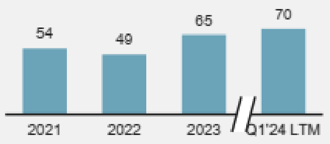


No sweep (but distributions flow to DOF Subsea)

DOF Norskan

Gross debt	USD 533m
NIBD	USD 502m
LTM NIBD / EBITDA(1)	7.1x

EBITDA '21-'23(1) (USDm)

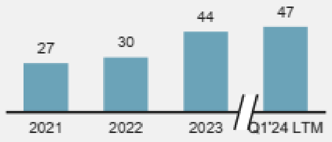


Cash sweep

DOF Rederi

Gross debt	USD 121m
NIBD	USD 93m
LTM NIBD / EBITDA(1)	2.0x

EBITDA '21-'23(1) (USDm)



Cash sweep

DOF MSS

Gross debt(2)	USD 500m
NIBD(3)	USD 377m/277m
LTV	38%
Net LTV(4)	29%/21%

No sweep

Able to make distributions to equity

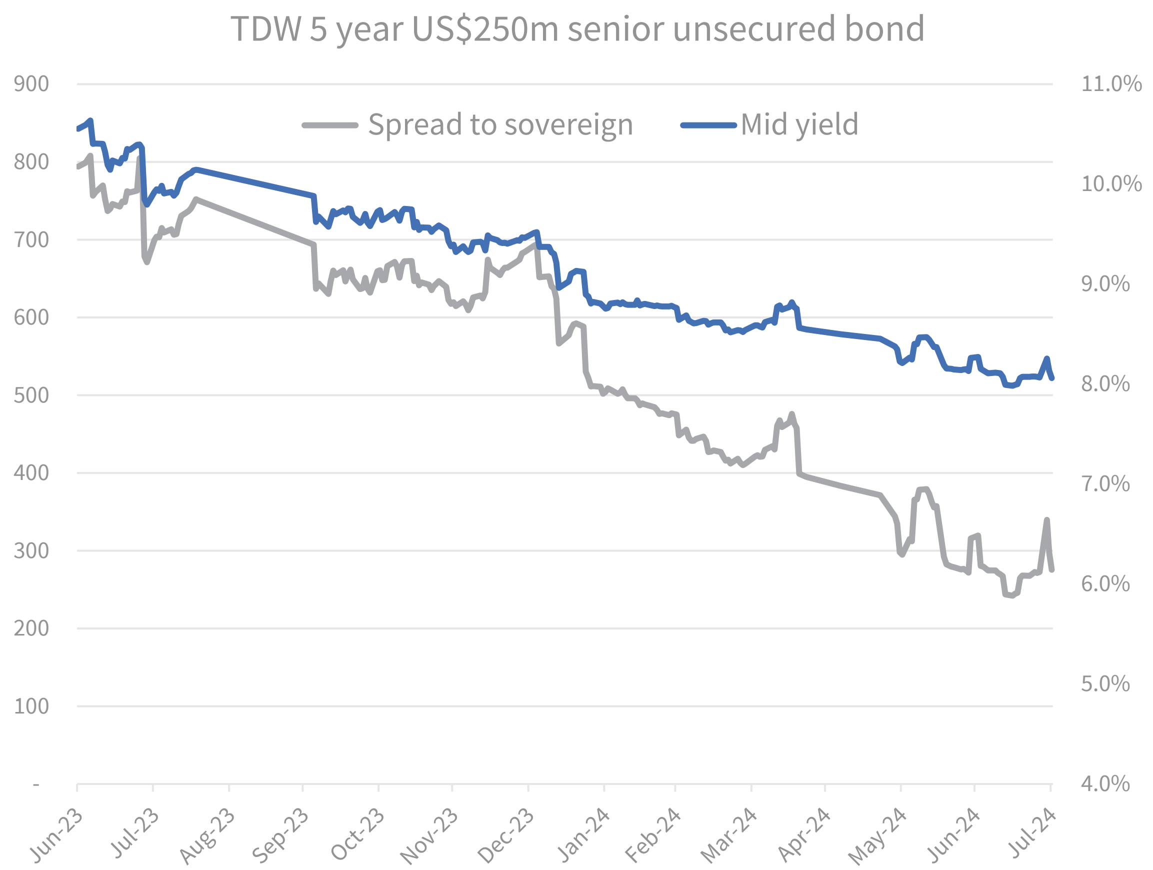
JV distributions

Reference bond from closest competitor trading tighter

Comparable issuer credit as indicator

- Tidewater (TDW.US, mkt cap US$5.2bn) is largest OSV operator
- Tidewater issued 5 yr bond in July 2023 at 10.375% coupon and ~10.4% yield to maturity after small pricing discount
- Since then bond has traded significantly tighter.
- TDW is a similar recovery story to DOF, but further developed
  – TDW: 1.0x Net debt / EBITDA
  – DOF: 1.9x Net debt / EBITDA
- Credit markets open for OSV issuers

Reference bond yield to maturity and government spread



Capital returns after the refinancing expected in 2025

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Quotes from year end 2023 earnings call, 23 February 2024

Analyst: "Should we expect growth to be the main strategy post-refinancing or shareholder distributions?"

DOF Chairman[1]**:** "…priority number one is to pay back value to the shareholders"

DOF Chairman: "…on the new builds…there will be very few. If you order today you go get it in, lets say, late 2026, 2027"

"…do the maths on the rates, these guys are getting and the price they are paying is nothing near something we would have done"

"You can buy, let's say, DOF here at 1.77[2], or quality companies at three times or four times the '24 EBITDA"

"And then these guys [ordering new builds] are paying eight times with a multiple in '26"

1 DOF Chair Svein Harald Oygard. Economist, former head of McKinsey Norway, Norwegian State Secretary in the Ministry of Finance. Appointed interim governor of Iceland's central bank from February to September 2009. Mr. Oygard joined DOF in 2023 as part of its restructuring. Mr. Oygard holds approximately US$7m in DOF shares at current prices.

2 One interpretation is the Chairman is inferring DOF's forward EV/EBITDA multiple on some view of future EBITDA.

#6: DOF: Valuation

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Large upside on spot day-rates…

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Calculating EBITDA based on spot day rates for the vessels shows large upside.

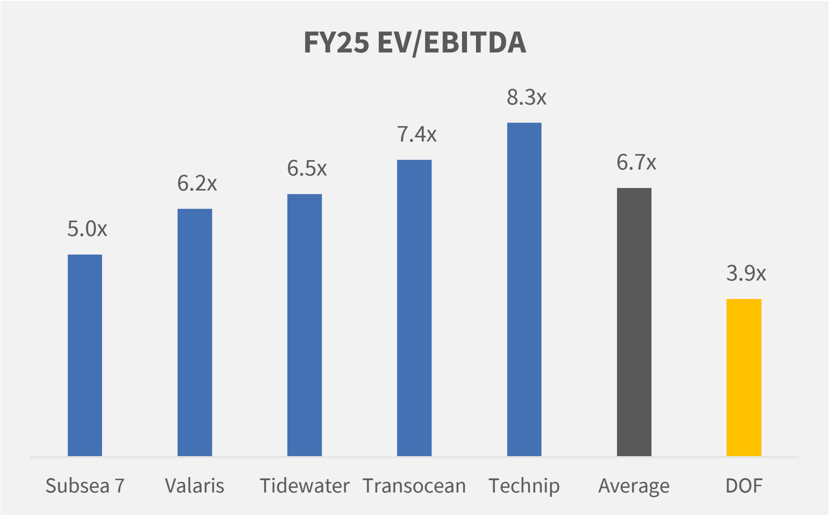
Leading Edge EBITDA	USD M	**1,148**
Valuation Multiple	x	5.00x
Enterprise Valuation	USD M	**5,740**
Net Debt	USD M	1,146
Market Cap	USD M	**4,594**
Shares Outstanding	Millions	248.8
Price (USD)	USD/ Share	18.46
Price (NOK)	NOK/ Share	203.11
Current Market Price	NOK/ Share	105.70
Upside	%	**92%**

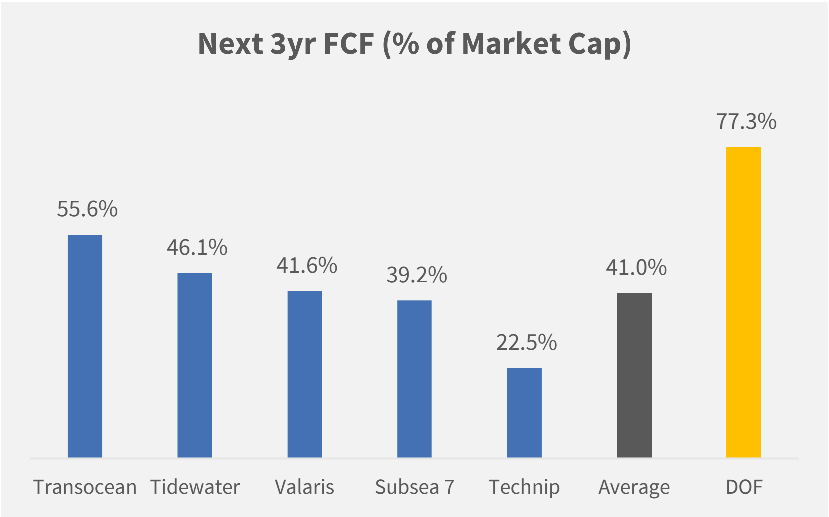
Source: Company announcements, Carnegie, Geometrica analysis

DOF's Valuation is dislocated vs peers

Geometrica Fund

DOFG's valuation is lower on fwd earnings with significantly higher free cashflow





Comps have a higher multiple due to:

- Less leverage (DOF at 2x vs 1.7x)
- Ability to pay dividends -> DOF has a cashflow sweep mechanism
- Less legacy contracts
- Less customer concentration

Catalysts for Re-rating: Change in DOF's financial profile

	2024	2025
Investment Grade Debt metrics	✗	✓
Dividend	✗	✓
Low priced legacy contracts cease	✗	✓
No excessive customer concentration	✗	✓

Source: Company materials, Bloomberg, Geometrica

As DOF's financial profile changes – driven by repricing legacy contracts – the market will be forced to revisit its valuation multiple