

# SFL Earnings Call Transcript

**Date: 2025-08-19**

**Quarter: 2**

Espen Nilsen Gjørund: Hello, everyone. Welcome to SFL's Second Quarter 2025 Conference Call. My name is Espen Gjørund, and I'm Vice President of Investor Relations in SFL. Our CEO, Ole Hjertaker, will start the call with an overview of the second quarter highlights. Then, our Chief Operating Officer, Trim Shirley, will comment on vessel performance matters, followed by our CFO, Aksel Olesen, will take us through the financials. [Operator Instructions]. Before we begin our presentation, I would like to note that this conference call will be forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as expects, anticipates, intends, estimates or similar expressions are intended to identify these forward-looking statements. Please note that forward-looking statements are not guarantees of future performance. These statements are based on our current plans and expectations and are inherently subject to risks and uncertainties that could cause future activities and results of operations to materially differ from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include, but are not limited to, conditions in the shipping, offshore and credit markets. You should, therefore, not place undue reliance on these forward-looking statements. Please refer to our filings within the Securities and Exchange Commission for a more detailed discussion of risks and uncertainties which may have a direct bearing on operating results and our financial condition. Then I will leave the word over to our CEO, Ole Hjertaker, with highlights for the second quarter.

Ole Bjarte Hjertaker: Thank you, Espen. We are now announcing our 86 dividend and continue building our business as a maritime infrastructure company with a diversified fleet. We reported revenues of \$194 million this quarter and the EBITDA equivalent cash flow in the quarter was \$112 million. Over the last 12 months, the EBITDA equivalent has been \$526 million. The second quarter result was impacted by several one-off items, including a higher number of vessels in dry dock and several of these with additional efficiency investments. Dry dockings are expensed when incurred and the vessels revenues were lower than when they are out of service. The drilling rig Hercules also remained idle in the quarter. We have, in recent quarters, taken decisive steps to strengthen our charter backlog by securing agreements with strong counterparties and deploying high-quality assets. We have also made substantial investments in cargo handling and fuel efficiency upgrades across our existing fleet while divesting older less efficient vessels. As part of this process, 57,000 deadweight dry bulk vessels built between 2009 and 2012 have been sold recently. Four of the vessels have already been delivered to their new owners and the last vessel is due to be delivered next month. The vessels were originally on long-term charters, but have been operated in the spot market the last several years. Due to a combination of age, design and fuel efficiency, we have not been able to find new long-term charters for these vessels, and we have therefore decided to divest the vessels as part of our continuous fleet renewal process. Eight older Capesize [ bulkers ] to Golden Ocean and 7 2002-built container ships to MSC have also been redelivered in late June and early July, pursuant to the chartering agreements. As a result of this and also vessel efficiency investments, operational efficiency and fuel consumption profile of the fleet has improved materially, delivering benefits to both SFL and our customers. We have also advanced our commitment to new technology with 11 vessels now capable of operating on LNG fuel, including 5 new buildings currently under construction. We are pleased to announce new 5-year charters for 3 9,500 TEU container vessels on charter to Maersk. This adds \$225 million to our backlog

from 2026 onwards, and the vessels will be upgraded with both cargo and fuel efficiency features similar to our other large container ships. Most of the upgrades will be compensated by the charterer through charter rate add-ons. The drilling rig Hercules has been idle since the fourth quarter in 2024 and the recent market turmoil and oil price volatility has delayed new employment opportunities for the rig, which is impacting our near-term financial result as we keep the rig warm stacked. We remain optimistic about finding new employment for the rig and continue to explore strategic opportunities for the rig in parallel, but it is difficult to give any guiding on timing for this. We have also recently redelivered several vessels pursuant to pre-agreed purchase options and sold vessels employed in the spot market. And while this is increasing our available capital for new investments, it is reducing the near-term cash flow generation. The Board has therefore decided to adjust the dividend to \$0.20 per share for the second quarter. With this dividend, we have returned nearly \$2.9 billion to our shareholders over 86 consecutive quarters and the \$0.20 dividend represents a yield of approximately 9% based on share price yesterday. Our charter backlog is currently \$4.2 billion. And importantly, 2/3 of this is to customers with investment-grade rating, giving us a unique cash flow visibility and resilience in light of the current market volatility. Over time, we have consistently demonstrated our ability to renew and diversify the portfolio of assets and charters, supporting a sustainable long-term capacity for shareholder distributions. And we have a strong liquidity position, including undrawn portions of credit line and also multiple unlevered vessels at quarter end, which should enable us to continue investing in new accretive assets. And with that, I will leave the word over to our Chief Operating Officer, Trim Shirley.

Trym Otto Sjølie: Thank you, Ole. Our current fleet is made up of 16 maritime assets, including vessels, rigs and contracted new buildings. Although a lot of material reduction in charter backlog, we have a reduction in fleet from last quarter after having disposed of 20 of our older vessels. These sales partly come as a result of end of lease vessels being sold back to charterers under option structures, but also due to fleet renewal. The average age of the vessels sold was about 18 years reducing the fleet average by about 2 years. Our backlog from owned and managed shipping assets stands at \$4.2 billion, and the fleet following Q2 is made up of 3 dry bulk vessels, 30 container ships, 16 large tankers, 2 chemical tankers, 7 car carriers and 2 drilling rigs. Now we have a diversified fleet of assets chartered out to first-class customers on mostly long-term charters and the majority of our customer base is large industrial end users. Container vessels dominate our backlog accounting for about 71% of our portfolio. A key to remain an attractive partner is to ramp up investments in fleet renewal, new technology and vessel upgrades, which we are doing. Stricter regulatory demands, particularly from the IMO and EU aimed at cutting shipping emissions is another driving factor. By enhancing our fleet, we position ourselves for organic growth, either by supplying new vessels to clients or extending the life of existing ones. In Q2, we had 4 container vessels in dry dock for special survey and major upgrades to cargo systems, energy saving technologies, propeller enhancements and home modifications. On the back of already executed project with Maersk, we have agreed new 5-year time charters on 3 of our 9,500 TEU container vessels, also including a similar investment scope. In Q2, 95% of charter revenues from all assets came from time charter contracts and only 5% from bareboats or dry leases. The charter revenue from our fleet was about \$194 million in the quarter, and we had a total of 6,475 operating days. Operating days being defined as calendar day less technical off-hire and dry dockings or stacking for rigs. Eight vessels have been in dry dock in the quarter, 4 of which were container ships undergoing major upgrade projects and the time at the shipyard required for those upgrades beyond the 15 days normal dry docking is for charterer's accounts. This quarter, in addition to high number of vessels in dry dock, the scope of repairs and upgrades was larger than usual. Thus, the dry dock costs in the quarter was about \$16 million. Where we, in a normalized quarter, we'd see an average of 2.5 vessels in dry dock at a cost of around \$5 million. We expect driver costs in Q3 and Q4 to taper down significantly. Our overall utilization across the shipping fleet in Q2 was 98.1%. Adjusted for unscheduled technical off-hire only, the utilization of the shipping fleet was 99.9%. And a testament to a high quality of our vessel management. Subsequent to quarter end, our car carrier SFL Composer, had a collision in Denmark upon approaching [indiscernible] going in for a special survey drydocking at Fayard. Just before midnight on August 4th, the vessel was hit from behind by an overtaking container vessel. Luckily, there were no injuries to personnel and no pollution as a result of the collision. The vessel went

straight into dry dock after the incident and is currently scheduled for completion of all repairs by early September. Due to loss of higher insurance, we expect no impact to earnings. On the energy side, the liners rig earned \$22.6 million in Q2, about 10% up from Q1 as the contract rate was adjusted up by 2% from May and the rig had no downtime during the quarter. OpEx was \$14.5 million in Q2, up from \$12.2 million in Q1 as the U.S. dollar weakened versus the NOK, thereby impacting personnel expense in dollars. The Hercules rig is currently warm stacked in Norway and being marketed for new contract opportunities. During the second quarter, the rig recorded \$3.3 million in revenues relating to contract payments from Equinor and equipment rental income. The majority of this equipment has been returned subsequent to quarter end, and we do not expect to receive further rental income. Rig OpEx was approximately \$4.9 million in the second quarter. I will now give the word over to our CFO, Aksel Olesen, who will take us through the financial highlights of the quarter.

Aksel C. Olesen: Thank you, Trym. On this slide, we have shown our pro forma illustration of cash flows for the second quarter. Please note that this is only a guideline to assess the company's performance and is not in accordance with U.S. GAAP and also net of extraordinary and noncash items. The company generated gross charter hire of approximately 194 million during the second quarter. Approximately 82 million coming from our container fleet, including profit share related to fuel savings on 7 of our large container vessels. As in the previous quarter, revenue was impacted by scheduled dry dockings and efficiency upgrades on some of the large container vessels as 4 vessels on when scheduled dry docking during the quarter. Also, the company sold the 2005-built, 1,700 container vessel [ HMAs ]. And just before quarter end, 7 of container ships on [indiscernible] were redelivered pursuant to the chartering arrangement. The [indiscernible] fleet generated approximately \$26 million of gross charter hire in the quarter, including profit share from fuel savings, which is slightly up from the last quarter. Well, tanker fleet generated approximately \$41 million in gross charter hire, which is down from approximately \$45 million in the previous quarter as 3 vessels underwent scheduled dry docking. SFL has 14 dry bulk vessels, of which 8 are employed on long-term charters. The vessels generated approximately \$19 million in gross charter higher in the second quarter. The 7 vessels employed in the spot and short-term market contributed with approximately \$5.8 million in net charge revenue compared to approximately \$4.4 million in the fourth quarter. During the quarter, the [indiscernible] is remaining for Supramax dry bulk vessels. And subsequent to quarter end, the company delivered its 8 Capesize travel vessels on contract with Golden Ocean to them as part of the previously announced purchase option that was exercised in the first quarter. As well on 2 harsh environment drilling rigs the large back up rig lines and the ultra deepwater semisubmersible rig Hercules. The rigs generated approximately \$26 million of charter hire in the quarter. Our operating and G&A; expenses for the quarter was approximately \$83 million, up from approximately \$78 million in the first quarter. We had a relatively high number of vessels in scheduled dry dock in the quarter and dry dock expenses for ships are being expensed when incurred. Furthermore, the vessels are out of service during the dry dock period, reducing revenues temporarily. During the second quarter, we expensed approximately \$16.5 million were vessels in dry dock compared to a normalized average of approximately 5 million per quarter. This summarizes to an adjusted EBITDA of approximately \$112 million compared to \$116 million in the previous quarter. We then move on to the profit and loss statement as reported on the U.S. GAAP. Our second quarter report total operating revenues of approximately \$192 million compared to approximately \$187 million in the previous quarter. The contribution from our vessels was approximately \$167 million compared to approximately \$171 million in the previous quarter, whether rigs contributed with approximately \$26 million compared to approximately \$22.5 million in the previous quarter. Vessel operating expenses in the quarter was approximately \$67 million, including approximately \$16 million related to scheduled dry dockings compared to approximately \$58 million in total in the previous quarter. Rig operating expenses in the quarter was approximately \$19 million compared to approximately \$18 million in the previous quarter. The net results in the second quarter was also impacted by nonrecurring or noncash items. Including net gain on sale of assets of approximately \$4.2 million; negative mark-to-market effects from hedging derivatives of \$2.4 million and negative mark-to-market effects from equity investments of approximately \$1 million. So overall, and according to U.S. GAAP, the company reported a net profit of approximately \$1.5 million or \$0.01 per share compared to a net loss of approximately \$32 million or

\$0.24 per share in the previous quarter. Moving on to the balance sheet. At quarter end, SFL had approximately \$156 million of cash and cash equivalents in addition to undrawn credit lines in the amount of approximately \$49 million. In addition, the company had 15 unencumbered vessels with a market value of approximately \$192 million at quarter end. During the quarter, the company received net proceeds of approximately \$20 million from the sale of 1 Supramax vessel and 7 container vessels. And subsequent to quarter end, 12 of our 15 uncovered vessels have been delivered with new owners, including the 8 Capesize [indiscernible] to Golden Ocean with a total net proceeds for approximately \$150 million further strengthening our liquidity position. So including available credit lines, we currently have available liquidity of more than \$300 million. During the quarter, the company entered into approximately \$84 million of new financing arrangements for the 2 car carriers, SFL conductor and SFL Composer. We also prepaid the facilities in a total amount of approximately \$95 million in addition to owner installments of approximately \$59 million. As of the end of the quarter, the company had approximately \$25 million in remaining capital expenditures, mainly relating to efficiency upgrades on the large container vessels and the Hercules. We furthermore have remaining capital expenditures of \$850 million remaining on 5 contained new buildings expected to be funded through pre- and post-delivery financing. So based on the Q2 numbers, the company had a book ratio of approximately 25.5%. Then to summarize. The Board has declared the 86th consecutive cash dividend of \$0.20 per share, which represents a dividend yield of approximately 9% based on the [indiscernible] price yesterday. Our charter backlog is currently \$4.2 billion. And importantly, approximately 2/3 of this is the customers with investment-grade rating, giving us a unique cash flow visibility and resilience in light of the current market volatility. Furthermore, our strong balance sheet and liquidity position provides flexibility in the current market environment and enables us to pursue new investment opportunities. And with that, I give the word back to the operator, who will open the line for questions.

Espen Nilsen Gjørund: [Operator Instructions]. And we will have our first question from Mr. Jeff Harvey. What's the status with the lawsuit with Seadrill?

Aksel C. Olesen: I think there's 2 lawsuits, the larger one relating to the redelivery of the Hercules. That will be scheduled sometime in hopefully first half of 2026 yes. And also, I mean, as you know, we were awarded adjustment in the first instance of approximately \$45 million to \$50 million depending on kind of the currency rate. And we have also received a guarantee for that amount by Seadrill, including interest rates, yes.

Espen Nilsen Gjørund: Thank you, Aksel. We will now take our next question from Gregory Lewis. Please unmute your speaker to ask your question.

Gregory Robert Lewis: I was hoping to get more of a kind of -- if you could kind of walk us through your thought process on the decision to lower the dividend. Obviously, the \$0.07, well called out. Is that -- clearly, you highlighted the rig as kind of the main driver for that. But I imagine it's not just that simple. So just kind of curious how you kind of set that \$0.20 number and how we should think about that moving forward? As if our base case is that, that rig goes back to work, I don't know, sometime next year.

Ole Bjarte Hjertaker: Thank you, Greg. It's Ole here. Yes, we fully understand and appreciate that there is some disappointment on an adjustment to the dividend level. We guided in the first quarter that unless we saw a clear path onwards of the near term for the Hercules that we might have just looked at the distribution, call it, longer-term distribution capacity in the company. So it's clear that the rig is warm stacked. It's -- these assets are quite expensive to keep to make sure that they are effectively ready to drill when there are contract opportunities. But it looks like this market is -- continues to be relatively slow. And the opportunity these take longer to materialize than we had hoped for. So that is, of course, one piece of it. And while the rig is idle. We have a warm stack rate currently of in the region of \$60,000 per day and then, of course, also some interest and amortization on the financing relating to it. So that is something that we, of course, are focused on. But also bearing in mind that when the rig worked in -- when the last full quarter that the rig worked in the third quarter of 2024, yes, it had a significant contribution. Just to add one rig alone had an EBITDA contribution of around \$35 million or around \$20 million that quarter after interest and amortization. So it's a big -- it's a significant asset when it's working. But right now, we feel and the Board feels that it's very prudent to make sure that the distribution isn't effectively subsidized, because that unit is out of service currently. We also have

recently divested some of the assets that we noted, some of the dry bulk vessels to Golden Ocean. And incidentally, we find it -- it's also -- we call it a historic moment when Golden Ocean first was sold and then -- now the vessels were effectively repurchased based on the pre-agreed purchase option. That was the last related party deal that we had in our portfolio. So no -- all our transactions are with third-party companies and customers out there. But both the sale of those vessels, the sale of some older container ships we had and also the brokers. That is more from a timing perspective we now have significant investment capacity from that and that capital is hopefully redeployed when we see the right investment opportunities going forward. So the adjustment to \$0.20 is seen as a whole. But you could also say that part of that is also illustrating the distribution capacity coming out from the other assets that we have in our portfolio currently. And then with investment capacity on the side and hopefully some good upside potential relating to the Hercules when that is backed out working.

Gregory Robert Lewis: Okay. Super helpful. And then just -- I'll ask just my two questions and then. The first one is pretty quick. As we think about -- you called out the dry docking, which impacted tankers and container OpEx costs in the second quarter. As we think about the back half of the year, should we be thinking around costs for those sub asset classes to look more like Q1 in terms of costs or maybe somewhere in between Q1 and Q2? And then just -- and then I was hoping after that, you could talk, cash has gone up. Obviously, there's a lot of uncertainty in the market. But just kind of curious, broadly speaking, how you're thinking about the ability to -- and really what the market is telling you in terms of the opportunities to acquire assets because it does look like that's really what's going to drive any pickup in the dividend going forward.

Aksel C. Olesen: So on dry dockings, we've had a high number of product in both in Q1 and Q2. Now in Q3, we will have a couple of ships sort of scheduled in Q4, perhaps one depending a little bit on timing. So the last 2 quarters this year will be we expect the cost for drydocking and any positioning of vessels to be very low and sort of under the average. So that this year, although more busy than a normal year, we'll still average out. And sort of per vessel docking, if it's a large container ship will be maybe around 2 million. If it's a small container ship, maybe 1.5 this and for car carriers. So I think -- in Q3, we might be looking at maybe 3.5 million. And in Q4, maybe 1 to 2 on the dry docking side.

Ole Bjarte Hjertaker: And just for illustration, that is down from around 16.5% in the second quarter. It's because of the high number of vessels in dry dock.

Aksel C. Olesen: Yes. I believe around 10 million in the first quarter. So it's -- the front half of the year has been kind of very heavy on the dry dockings and then it's going to normalize for the rest of the year.

Gregory Robert Lewis: Okay. Super helpful. And then just on the opportunity landscape for potential acquisitions.

Ole Bjarte Hjertaker: Yes, absolutely. I mean, yes, we are -- we continue to look at opportunities. The market has been a little slower in terms of -- I think this has more to do with the general market uncertainty from April onwards. So I would say, through the second quarter was slower in terms of new opportunities where we saw that there was some real window to get a transaction done. We are very focused on counterparties and counterparty strength, asset types, what kind of residual exposure we will be willing to take? And of course, that is bearing into the opportunities that we end up doing in the end. We have never guided in the past on how much we are going to deploy in every single quarter. Just as an illustration, the last months 18 months in 2024 and first half 2025, I believe we added more than \$2 billion to our charter backlog invested north of well north of \$1 billion. So we have been quite active over time, but it's all about getting the right deal done. But we definitely have investment capacity. And not least now when we have had the transactions relating to both the Capesize bulkers, the Supramax bulkers and also the container ships, which has given us a good net cash contribution.

Espen Nilsen Gjørund: We'll take our next question from Mr. Climent Molins.

Climent Molins:

Value Investor's Edge: If I remember correctly, this is the first quarter in which you've provided the EBITDA contribution from your energy assets on a stand-alone basis. If we strip out the \$3 million to \$4 million in rental income, you mentioned you generated during the quarter. Should we expect the organic EBITDA contribution from the energy side to come in at around \$3 million per quarter until a new contract for the headquarters is secured.

Ole Bjarte Hjertaker: I'm not sure exactly which number you are looking at now, but we have the 2

drilling rigs, liners and Hercules Liners is operated currently at a charter rate of around \$230,000 per day, as an operating expense in the region of \$140,000 per day. So there is around \$90,000 per day net after OpEx.

Aksel C. Olesen: Yes. So in terms of kind of on the revenues, on the energy side, I think it's slightly \$3 million higher than we should expect in the run rate rest of the year as revenues are mainly from the liners and we had \$3 million, call it, extra from the previous work for the Hercules that came in a bit later in this quarter. So we'll unfortunately continue to have kind of a negative drag from the energy segment going forward, but we thought it would be good to highlight kind of the very solid contribution and cash flow we have from our shipping fleet and just kind of making this clear for investor and also analysts.

Climent Molins:

Value Investor's Edge: Yes, I think that's helpful. And now I also wanted to ask a question, this one more on the modeling side. You still have around \$850 million in CapEx outstanding in -- for the containership newbuilds. And that's expected to be covered by debt proceeds. Are the deliveries still expected in 2028?

Aksel C. Olesen: Correct. So in terms of the progress there, I mean the yard will kind of commence with kind of the construction of these vessels approximately one year of effective construction time on the ship. So kind of we'll have installments starting one year before delivery of the ship. So Q1 in '27 will have some more installments and then the ships are delivered throughout 2028, starting in Q1. So we have a question here from [indiscernible]. Just a question on the vessel rig operating expenses. I think we addressed that already. So on the shipping side, we should expect that to be coming down. There's also a follow-up question on the Hercules in terms of the kind of stacking cost on that. I think we are continuously working on reducing that to an efficient number preserving kind of the warm stack mode of the rig. And hopefully, we can push that down to around 60-ish per day going forward, but always looking to decrease this further. Espen Nilsen Gjørund Okay. As there are no further questions from the audience, I would like to thank everyone for participating in this conference call. If you have any follow-up questions to the management, there are contact details in the press release or you can get in touch with us through the contact pages on our web page, [www.sflcorp.com](http://www.sflcorp.com). Thank you.