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Q1 2020 ION Geophysical Corp Earnings Call

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CORPORATE PARTICIPANTS

Christopher T. Usher *ION Geophysical Corporation - President & CEO*
Michael L. Morrison *ION Geophysical Corporation - Executive VP and CFO*
Rachel White *ION Geophysical Corporation - VP of Corporate Communications*

CONFERENCE CALL PARTICIPANTS

Bruno Costa *Concise Capital Management, LP - Investment Analyst*
Colin William Rusch *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

PRESENTATION

Operator

Greetings and welcome to the ION Geophysical First Quarter Earnings Conference Call.

(Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Rachel White, VP of Corporate Communications. Thank you. You may begin.

Rachel White ***ION Geophysical Corporation - VP of Corporate Communications***

Thank you, operator. Good morning and welcome to ION's First Quarter 2020 Earnings Conference Call. We appreciate your joining us today.

As indicated on Slide 2, our hosts today are Chris Usher, President and Chief Executive Officer; and Mike Morrison, Executive Vice President and Chief Financial Officer.

Before I turn the call over to them, I have a few items to cover. We will be using slides to accompany today's call, which are accessible via a link on our website, iongeo.com. There you will also find a replay of today's call.

Before we begin, let me remind you that certain statements made during this call may constitute forward-looking statements. These statements are subject to various risks and uncertainties, including those detailed in our latest 10-K and other SEC filings, which may cause our results or performance to differ materially from those projected in these statements. Our remarks today may also include non-GAAP financial measures. Additional details regarding these non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures, can be found in our earnings release issued yesterday.

I'll now turn the call over to Chris, who will begin on Slide 4.

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Thank you, Rachel. Good morning, everyone. Thanks again for joining us today.

A lot has happened since we gathered on our last earnings call. I'm going to cover what's transpired and how we're addressing our business in a radically transformed and still uncertain market.

First, I am very satisfied with our start to 2020 and commend our team's significant accomplishments this quarter. We had the best first quarter performance in 6 years despite unprecedented market disruption from both coronavirus demand destruction and oil geopolitics. Our revenues of $56 million are up 53% from the prior period. In addition, our adjusted EBITDA swung from a slight negative to a positive $23 million.

Our strong first quarter results reflect the value of our offshore data library and validate the combined effectiveness of our strategic refocus and over $20 million in cost reductions made in January. Our team creatively closed a number of large multi-client contracts, some of which were delayed from the fourth quarter, even after E&P market dynamics changed. I remain confident in ION's value proposition to support customers' data-driven decision making as they shift portfolios toward opportunities for lower-cost barrels in this lower-for-longer environment.

As the quarter unfolded, ION rapidly adjusted to new ways of working while maintaining business continuity and accelerating strategy execution. Our employees have been dynamic in their response and looked for opportunities instead of simply hunkering down and cutting costs. We shifted to new digital engagement models with customers and deployed new technology solutions to facilitate remote offshore operations management under our newly launched [ION AnyWare] family of services and enabling software.

We responded quickly and decisively to the COVID-19 threat to our employees and our business. We rapidly implemented business continuity plans and shifted 95% of our global workforce to remote working by March 23. The remaining 5% of essential staff stayed on site, including manufacturing and data center personnel, and are working in accordance with, and often exceeding local government regulations and health agency recommendations. We continue to work in this mode today across China, Europe, Latin America and the United States.

As we were adjusting workplace practices to protect our employees and communities, we were also rolling up our sleeves around our business. The combination of coronavirus demand destruction and increased global production caused a significant market surplus. Industry analysts estimate demand for oil and gas will contract 20 million barrels per day due to the pandemic by the second quarter, or about 20% of global supply. As a result, by March, oil prices dropped more than 60% since the start of the year, and E&P budgets were cut back by an average of 25% in response. Already, lean exploration budgets are expected to bear some of the deepest cuts in percentage terms. The fallout from these rapid market adjustments have hit North American onshore shale hardest compared to the heretofore lesser impact on global offshore geo markets where ION is focused. While exploration offerings tend to be perceived among the most discretionary expenditures, many offshore clients have longer-term time horizons as it takes an average of 7 years to bring their new discoveries online. Some customers with healthy balance sheets are even seeing today's environment as an attractive buying opportunity.

With that unprecedented context and no clear recovery in sight, we focused on landing a strong first quarter while preparing a new 2020 operating plan with a conservative revenue model and a fresh tranche of cost reductions. We engaged with our E&P client accounts to translate their company's public budget announcements to the likely impact to our business for the remainder of 2020 and proactively re-planned this year from the bottom up. Our focus has switched from a rebound year with profit to leaner revenues, cash preservation and EBITDA optimization while progressing our top strategic priorities.

Our asset-light strategy avoids significant fixed costs and provides flexibility to quickly scale the business to meet demand. We responded rapidly and aggressively to preserve cash and manage liquidity. We announced another $18 million of cost reductions on top of the over $20 million of cuts we made in January. While we reduced R&D budgets, our investment remains at a consistent and healthy 10% of our revenues to maintain our technical differentiation in key areas.

In addition to the cost reductions, we also scaled back our projected multi-client investment for the year to $20 million to $30 million, down from $30 million to $40 million, which reflects both reduced seismic demand and customer underwriting, along with travel and border restrictions impacting new data acquisition offshore.

We also expect the sale of our 49% share in the nonstrategic INOVA land seismic equipment joint venture with BGP to deliver an additional $12 million liquidity boost in the second half of the year, subject to closing conditions. Mike will elaborate on these efforts as well as the innovative ways we are looking to retain our talented workforce for better times, including access to government relief funding around the globe.

And to put a cap on milestones for the quarter, I am happy to have resolved our decade-long patent litigation with WesternGeco. We closed a significant chapter that once threatened the survival of our business and are moving forward positively with mutually beneficial collaboration opportunities. I'll elaborate on this before I wrap up.

In our E&P Technology & Services segment, revenues rose 72% compared to the first quarter of 2019 due to an increase in 2D multi-client data library sales. 3 large deals, representing a significant portion of our multi-client revenue in the quarter, were closed even after the global COVID-19 lockdown and oil price collapse. The exploration industry is rapidly adjusting to an exacerbated lower-for-longer commodity price regime and are searching for opportunities that deliver value within that backdrop. Our 2D multi-client portfolio consists of over 700,000 kilometers of data around the world and, with a combination of basic -- basin-specific design and new consumption models, supports E&P firms' strategic portfolio decisions over the next investment cycle even in this difficult environment. We continue to build partnerships and innovative business models in this space.

Most of ION's capital expenditures relate to investment in our multi-client data library. The higher end of our revised range dropped down in line with the $29 million we invested in our multi-client data library last year. Our sanctioning approach continues to require that a majority of new multi-client program costs are underwritten by customers or other financial partners. Our conservative approach to data library investment, successfully implemented in prior downturns, is a prudent way to respond to sudden reductions in demand for new data. It provides flexibility to aggressively reduce cash outflows while shifting to much lower-cost reimaging programs. In that vein, we sanctioned 2 reimaging programs, the 22,000-square-kilometer 3D reimaging program offshore Uruguay we mentioned last call and another 23,000-square-kilometer extension to our enormous Picanha 3D reimaging program offshore Brazil. That brings us to 12 programs in progress, slightly higher than a year ago and all employing lower-cost resources than new data collection whilst showcasing our Tier 1 imaging technology.

One of our top objectives entering 2020 was to accelerate our entry into the 3D multi-client new acquisition market. This strategy shift leverages the credibility achieved through our 3D reimaging product success and the introduction of new seismic source technology. This portfolio diversification further shifts new project investment closer to the reservoir, where capital investment tends to be more consistent and programs have larger-scale revenue and earnings potential. Historically, our data library was largely 2D and exploration focused. Because we had not materially participated in 3D multi-client projects, our revenues and data volumes only comprise about 3% of a $2 billion to $3 billion offshore market. Last year, our 3D multi-client data library, an offering that barely registered 5 years ago, grew 56% and generated 37% of our 2019 multi-client sales. These are great programs that we will continue to pursue and develop where there is the right legacy data to reimage. However, there is substantial upside potential in the 3D new acquisition market where revenue and earnings potential is at least 5x a typical new 2D exploration program.

With our January reorganization and increased focus on the segment, we continued to mature our pipeline of 3D new acquisition opportunities and have secured several 3D multi-client permits around the world. We believe our technology platform, including our enhanced frequency source, will be a key ingredient in successfully delivering a significant addition to ION's data library portfolio. While reduced budgets and COVID-19 travel restrictions make timing more uncertain, we still plan to announce a 3D new acquisition multi-client program this year as part of our new road map. Although industry project numbers are dropping, we have increased line of sight on 3D opportunities as a newly focused player.

Most new programs moving forward in this environment will likely be either production-focused or related to work commitments to retain acreage. Our enhanced frequency source is a differentiated technology that promises to be a key ingredient in solving many imaging challenges, particularly when used in combination with full-waveform inversion workflows. There is strong recognition and market pull for this technology in and around existing field appraisal and development applications, which is a more compelling and mission-critical application of seismic. Prior client-funded field tests validated our technology and energy sources' geophysical benefits, and we are now testing the system's endurance in an offshore deep-water environment. The novel source significantly extends low frequencies in the acquired data for improved velocity model estimation while limiting higher frequencies to a more environmentally friendly range. While many low-frequency sources are costly and complex to deploy, our source is simple and compatible with existing seismic fleet infrastructure to significantly reduce barriers to adoption.

In line with our strategic refocus, we combined our geophysical and geological capabilities into a single, more streamlined Imaging and Reservoir Services function, which is working well. Our Imaging and Reservoir Services revenues are up 34% this quarter. We have been dedicating most of our imaging capacity to create distinguished higher-return multi-client offerings like our Picanha program in Brazil and strategically deploying the remaining resources on challenging proprietary projects to retain ION's Tier 1 imaging brand equity in the market. This strategy has worked nicely to promote ION with multi-client program underwriters and will serve us well over the next couple of quarters, where in anticipation of a significantly reduced proprietary project pipeline, we can selectively shift resources to accelerate new multi-client reimaging products.

Our Operations Optimization revenues were relatively consistent with last year's results. I'm pleased our China operations and orders have come back strong after an understandably quiet start to the year.

Our Software group's revenue was down 12% primarily because command and control hardware sales for new crews did not materialize this quarter and, to a lesser extent, due to reduced seismic activity and associated services demand stemming from the COVID-19 pandemic. We maintained robust Marlin-related revenues and deployments in the quarter. Our Marlin software continues to drive improved operational performance and efficiency offshore and is becoming a recognized enabler for maritime digital transformation in our market. I'm particularly proud that our Marlin simultaneous operations patent was granted in the U.S. and Mexico, and we have been notified that a third is expected to be issued soon in Europe. In recent years, patent authorities have been hesitant to award patents around software technology, so this is an important step in qualifying our IP leadership.

In the first quarter, we received another grant from Scottish Enterprise to broaden Marlin's scope to deliver comprehensive value to the global ports and harbors market. Developed in conjunction with subject matter experts and initial port clients, the Marlin SmartPort technology road map has been designed to help stakeholders optimize decision-making and profitability. Marlin SmartPort development covers port call optimization, back-office digitalization and port community engagement, which is intended to benefit port customers by enabling increased revenue, efficiency and sustainability such as reducing fuel emissions.

The first phase of delivery to Montrose Port Authority was successfully installed, with a digital switchover of operations from a whiteboard and manual workflow to Marlin's SmartPort software that will enable better management of marine traffic and berth allocations. Impressively, their migration to ION's digital solution took place just as the U.K. moved to sheltering in place, and SmartPort supported business continuity while staff worked remotely due to the realities of pandemic disruptions. ION worked closely with Montrose Port Authority and industry experts to develop a compelling technology road map focused on driving real value in port operations of all sizes. The grant enables ION to further enhance its software and complete its next phase of technology development.

Combining Marlin's renowned ability to track complex vessel and operational activity with new web-based functionality has the potential to transform port efficiency. Despite cuts made in other parts of ION's business this quarter, given the appeal of the solution, we added sales resources and expanded marketing efforts to address ports in other geographies and launched a special SmartPort remote working trial offer as part of our new customer engagement outreach during the pandemic.

We have long recognized the safety and efficiency benefits of remote working and have been seeing a respectable take-up of our digital software offerings that link onshore to offshore and facilitate remote operations management. It's clearly safer and more cost effective to keep expertise onshore, and the reduced travel also lowers a company's environmental impact. That said, the seismic industry has been quite slow to embrace these benefits. In contrast, in a new market for ION, Marlin SmartPort has been quickly leveraged by port staff to control port operations from home.

The offshore E&P market is now exhibiting challenges beyond budget availability. COVID-19 geographical restrictions and difficulties quarantining offshore crews will require that our industry modify long-practiced behaviors. Digital transformation and remote operations have moved from nice-to-have visions to operational imperatives. ION has been developing cloud-enabled technologies like Marlin for some time. During the quarter, we launched a new smart operations offering that leverages our Marlin architecture to support customers' offshore operations remotely. Our consultants are successfully advising on project planning, navigation QC and SIMOPs from their home offices. This service now joins Marlin SmartPort as a member of our ION AnyWare offerings, a new class of solutions that support digital engagement with customers employing our proven architecture for remote offshore operations. The first deployment of an ION AnyWare solution for a seismic survey included a completely remote installation of ION software to the offshore vessel operations and start-to-finish remote supervision of the specified SIMOPs activities by an ION subject matter expert. Our client was delighted to have complete situational awareness and extensive dashboard reporting keeping them apprised of survey progress and supporting infield decision-making.

This is an important milestone since our offshore services business grew strongly over the last 2 years, but we know that the next 2 quarters will be very different given restricted vessel access and a slowdown in new offshore projects. The ION AnyWare portfolio will help us protect revenue given the significant headwinds in this previously largely services-led business line. We also anticipate both towed streamer and seabed customers will be stacking vessels temporarily, which puts downward pressure on our Software business that has been growing at a respectable clip. While we don't treat our long-term software contracts as backlog, the recurring revenue lease model provides a significant hedge for our Software business in such times. Even so, we are engaging with our seismic contractor customers to help them navigate the current circumstances and collaborating on areas where technology can reduce their costs and improve end customer satisfaction.

In the Devices group of our Operations Optimization segment, revenues were up 14% year-on-year, driven by an increase in towed streamer equipment replacement and repairs. Our group continued to benefit from higher towed streamer crew utilization and pricing during the quarter, and our manufacturing facility remains near capacity. SailWing deployments in the seabed segment continued to go well, and the solution clearly delivers both efficiency and positioning accuracy to our clients' projects. We deployed artificial intelligence technology within our Gator command and control software for SailWing that added a significant level of automation and optimization around vessel navigation, particularly for 4D operations, which adds geophysical fidelity to the already proven operational benefits.

We are pleased our operations in China have come back online, and with them, also our Chinese customers. This is encouraging on many fronts both from a pandemic well-being aspect as well as for the near-term business outlook. We already see project cancellations and seismic vessel stacking plans that will ultimately impact this business during 2020, but the China comeback has given us repairs and spares backlog through midyear. And our challenge is to continue to employ impeccable COVID-19 protocols in our New Orleans facility to deliver these orders.

And in sync with our Software business, we are encouraged that our seismic contractor customers are seeing and booking projects for their vessels in the second half of the year. Despite temporary fleet downsizing and fewer seismic projects in the seabed sector, we are in discussion around further SailWing deployments given the significant cost savings our solution delivers for those operations.

With that, I'll turn it over to Mike to talk us through the financials, and then I will wrap up before taking questions.

Michael L. Morrison ***ION Geophysical Corporation - Executive VP and CFO***

Thanks, Chris. And good morning, everyone.

Our first quarter revenues were $56 million, up 53% over the prior year and up 32% sequentially. This represents our highest first quarter revenues since 2014. Our first quarter adjusted EBITDA was a robust $23 million compared to a negative $100,000 a year ago.

Revenues in our E&P Technology & Services segment were up 72%, driven by increased sales of ION's global 2D data library. As Chris mentioned, this was largely related to a number of large multi-client contracts. Our Imaging and Reservoir Services revenues increased 34% as the group worked through a portion of its existing backlog.

Our Operations Optimization segment revenues were consistent with the prior year. In this segment, our Optimization Software & Services revenues were $4 million, a 12% decline, primarily due to lower command and control hardware sales, and to a lesser extent, the impact of COVID-19 reduced seismic activity and associated services demand. Our Devices revenues were $5 million, a 14% increase due to higher sales of towed streamer equipment and repairs.

Overall, we generated an income from operations of $6 million compared to a negative $16 million in the first quarter of 2019. We reported a net loss of $2 million this quarter or a loss of $0.16 per share compared to a net loss of $21 million or a loss of $1.52 per share 1 year ago. Excluding special items in both periods, we reported a positive adjusted net income of $5 million or $0.33 per share compared to an adjusted net loss of $17 million or a loss of $1.20 per share in the first quarter of 2019. Special items this quarter totaled $7 million and were primarily related to noncash charges. Notable items were $4 million associated with a partial impairment of our goodwill triggered by the drop in our stock price resulting from COVID-19 and a $1 million impairment to a 2D multi-client program in Mexico. Special items also included severance expenses largely associated with our previously announced cost-reduction program in January, partially offset by a reduction in stock appreciation rights awards expenses. A detailed reconciliation of special items in our financial results can be found in the tables of our press release issued yesterday.

As Chris mentioned, in April, we implemented additional cost-saving measures in response to recent adverse macroeconomic forces. These initiatives are expected to result in $18 million of savings over the remaining 9 months on this year on top of the over $20 million of annualized cost savings from January this year. We reduced personnel expenses by $13 million through a variety of furlough programs and reduced compensation arrangements. ION executives took a 20% base salary reduction, and ION's Board of Directors took a 20% reduction in their director fees. A tiered salary reduction was cascaded to the rest of the global workforce. A modest 2019 bonus payment that had been previously approved for nonexecutive management employees was eliminated. We also further decreased operating costs by $5 million by reducing spending on external contractors, physical trade shows, travel and entertainment.

At the close of the quarter, our cash balance was $43 million, which included $27 million of cash drawn under our revolver. In response to market uncertainty resulting from the COVID-19 pandemic and lower oil and gas prices, we drew a portion of our revolving credit facility. This amount remains outstanding and in our cash balances as a strategic reserve to have in our back pocket as we navigate the market uncertainty. Total liquidity, defined as the combination of our cash balance and the available borrowing capacity under our revolving credit facility, was $54 million. Moving forward, we expect cash to be bolstered by our increase in our accounts receivable resulting from our strong first quarter revenues that will be largely harvested during the second quarter, as well as the ongoing benefits of our previously mentioned cost-reduction measures.

In April, we qualified for and received $7 million of government loans, which we drew to support our ongoing operations without further reducing head count and which may qualify for loan forgiveness. We will continue to pursue additional relief opportunities made available to us. As of May 5, our cash balance on hand increased by $10 million to a total of $53 million, including the $27 million of revolver borrowings. We also anticipate a further liquidity boost of $12 million in the second half of this year from the sale of our 49% equity stake in the nonstrategic INOVA joint venture, subject to closing conditions.

I expect our debt restructuring efforts are also on many of your minds. As you know, we've engaged fairly early in the process with our banking advisers to evaluate the best path forward. While we have a little over 19 months to address our bond maturity, we are still hoping to settle it this year.

With that, I'll turn it back over to Chris.

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Thanks, Mike.

I'd like to elaborate a bit more on our patent litigation settlement and collaboration agreement with WesternGeco. We ended a decade-long overhang on the business and are moving forward positively by expanding our successful collaboration on multi-client programs. WesternGeco agreed to permanently dismiss the pending lawsuit, grant ION a license to the patents and lift the injunction preventing ION for manufacturing DigiFIN in the United States. In exchange, we agreed to pay a settlement value to WesternGeco out of future revenues from the company's multi-client data library, comprising, one, a small percent of 2D multi-client data late sales for a 10 year period; and two, transferring a majority of ION's revenue share to WesternGeco on some of the parties' existing joint multi-client reimaging programs offshore Mexico. Both companies further agreed to look to expanding the existing multi-client collaboration opportunities through new arrangements within specific geographies and product offerings.

Even prior to the current market conditions, we had resolved to constructively remove this business risk. Although we were delighted with last year's favorable ruling and award of a new damages case to ION, we firmly believe that partnering in our difficult seismic market is the better path for both parties rather than continuing to battle and face further cash drain through legal expenses.

Let's shift to our outlook and objectives.

We expect the market to be challenging over the next year or 2 with a substantial reduction in seismic demand. Clients are increasingly focused on near-field exploration due to higher, faster returns near existing infrastructure; as well as some limited exploration in emerging basins where petroleum system risk has been eliminated. We are seeing a number of offshore projects postponed and expect only the most attractive and important projects to proceed in the near term, such as those that optimize production or fulfill work commitments to retain acreage. We expect the travel and border restrictions and reduced oil industry activity to impact our new ventures and Software businesses the most. While we expect offshore operations to be temporarily impacted by travel restrictions, we believe the demand for digitalization technologies remains robust. We also believe now is the time to push hard on our new bridgehead outside of oil and gas in ports and harbors. The entire global economy is disrupted and supply chains are stressed and altered. Ports are in the middle of this and require significantly enhanced digital capabilities. We see this as an opportunity for ION right now.

Longer term, we believe oil and gas fundamentals remain strong. New oil and gas discoveries are still required to meet growing demand over the next decade. We expect data will continue to play an important role in portfolio rationalization to maximize value. We expect our industry to recover when E&P activity returns to more normal levels.

While the coronavirus pandemic and oil price volatility have caused significant disruption in our industry, we're focused on controlling the things we can. In 2020, we will do fewer things better and continue to build a culture around execution. We are focused on materially entering the 3D new acquisition multi-client market and building out the Marlin SmartPort business. We are also embarking on pragmatic digital transformation programs that either add value to our clients, such as enhancing our digital data library platform; or deliver substantial efficiencies, such as migrating our back-office IT infrastructure to the cloud. We also started deploying artificial intelligence into our offerings, such as automated subsurface interpretation.

We have taken measures to mitigate the impact of coronavirus and oil price volatility, including launching new offerings to support remote working for our clients, exploring new business models and finding new ways to remotely engage. We will continue to seek out ways in which ION technology is more relevant and valuable in the current environment.

The combination of our business continuity plans and cost-reduction initiatives enable ION to remain agile and support clients while navigating these uncertain times. I believe we are better positioned given our first quarter results and, with backlog and recurring revenue in some parts of our business, that we can mitigate some of the immediate impacts of the market disruption.

With that, we'll turn it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first questions come from the line of Bruno Costa of Concise Capital Management.

Bruno Costa ***Concise Capital Management, LP - Investment Analyst***

So first of all, congratulations on a great quarter. Second, so my question is how much of the current EBITDA can already be attributed to the company's cost-cutting programs, both the $20 million one that was previously announced and the more recent $18 million one?

Michael L. Morrison ***ION Geophysical Corporation - Executive VP and CFO***

Yes, so...

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Yes (inaudible) -- yes, yes, yes. Go ahead. I was just going to pass it off to you, Mike.

Michael L. Morrison ***ION Geophysical Corporation - Executive VP and CFO***

Yes. I apologize. So yes. So I'll say, for Q1, the $18 million additional that we enacted, that was in April, so that will be a go forward. So none of that has been reflected. What I'd say of the over $20 million, we implemented that in January. I believe, as we had stated on our call a quarter ago, that there would be a portion of that, that would be impacted into the quarter. Kind of my rough estimation would be about probably $2 million, $2.5 million would have been benefited to Q1, with that benefit growing in Q2. And then in the second half of the year, from the January reductions, we'd receive the full benefit.

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Yes. Bruno, the -- just because the revenue in Q1 was driven by late sales out of our existing library, most of that dropped straight to the bottom line, so that's where a lot of that EBITDA generation came from in Q1.

Bruno Costa ***Concise Capital Management, LP - Investment Analyst***

Got you. And regarding these multi-client late sales, were these from these most recent announced programs, the 4 programs that were announced at the end of Q4 but that revenues would only be seen in 2020? Or are these sales from older programs that were already in the library?

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Yes. The bulk of the content in those sales, they were spanning large parts of our library, and almost -- a very large percentage of that was from older data that's been on the shelf for some time. So it does highlight the value of the data that we put on the shelf years ago as well as more recently. The new program stuff will really be hitting revenues later this year and 2021.

Operator

(Operator Instructions) Our next questions come from the line of Colin Rusch of Oppenheimer & Co.

Colin William Rusch ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

With the INOVA divestiture, can you give us a sense of what evidence you're seeing that supports the continued timeline or the continuity on that timeline? And are there any interim hurdles that you need to get through to get to that closure?

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Sure, Colin. Thanks for joining. Yes, with the INOVA joint venture -- I'm on the Board of INOVA, as you probably know. Yes, we've got -- we've been talking about that deal with the potential acquirer for some time. They were quite happy also to have us announce that we had agreed the deal, just subject to pretty much government regulations and antitrust issues. So that's progressing as we expected. And the timeline for that was -- has been, since we made that agreement, kind of middle of this year. That was the time we expected or they expected to get through the due diligence around the regulatory issues and the antitrust. So no hiccups as of yet.

Colin William Rusch ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Okay, great. And then you're focusing on the working capital and what your real needs are and what that unwind begins to look like. Are you seeing that it's a source of cash? Are you seeing it kind of net cash neutral as you go through the next couple of quarters? Can you give us a sense of how we should think about it?

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Mike, do you want to take that one?

Michael L. Morrison ***ION Geophysical Corporation - Executive VP and CFO***

Yes, yes, I'll take that one. So yes, just on the working capital, as I had mentioned and as you'll see, we had a pretty nice increase in our accounts receivable at the end of Q1, obviously the result of our strong Q1 sales. Most of those, timing-wise, will be collected during the quarter. So I would see, the combination of that and with the benefits of our cost reductions, that there would be a nice generation of cash going into Q2. Q3 is going to be obviously dependent on revenues that we generate in Q2 and collect and kind of moving forward, but we will get more of the benefit of the cost reduction. So we're definitely confident with Q2 there will be an increase in cash.

Colin William Rusch ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Okay. And then with the Marlin marketing effort. I guess, as you look at the customer base and the bandwidth to actually look at new products and implement what you guys have to offer, what do you say the early returns are at this point? Obviously, I don't think -- no one is going to argue with you about the increased need for those sorts of solutions, but the ability to actually evaluate and implement is a different question, so I wanted to get a sense of that practical, mechanical kind of time line for your customers.

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Yes. It's a good point. So in the -- well, of course, Marlin technology is something that's already positioned in the existing seismic market, so I think we're going to get the benefit of that immediately with the remote operations capability under the [ION AnyWare] approach we talked about. And that's already happening. We already had one customer embrace that as -- pretty much as soon as we mentioned it. They saw the need for remote operations and the -- and ability to get people out to the vessel and the need to have that expertise. So we've already finished that job, and that was to great feedback. And we've got other customers looking at taking that service for our next job. So in the seismic world, although there won't be that many jobs given the current state of that market, we'll be well positioned there. So we'll be getting traction on that straight away. The -- on the Marlin SmartPort side, we obviously have our launch customer, port of Montrose, that we mentioned that's going very, very well. They're extremely pleased. We have some upcoming announcements around how that's actually worked jointly with them. And that encouraged us to just go hard on pushing the launch of the SmartPort capabilities immediately and basically put a pandemic offer out there just saying, listen, when you need to remotely work, we have something ready right now. And we're already getting engagement with those customers. We reached out to over 1,000 ports through the port associations that we're already a member of and we'll see how that goes, but I expect we'll get some people responding to that trial and we'll, hopefully, get them on the hook for the long term if they're happy with the service.

Operator

There are no further questions at this time. I would like to turn the call back over to management for any closing remarks.

Christopher T. Usher ***ION Geophysical Corporation - President & CEO***

Yes. Thank you. We have no more closing remarks, except that we want to thank you for taking the time to attend this call for Q1. And we look forward to speaking to you on our second quarter call and, hopefully, show some progress on the initiatives we've been focusing on. Thank you so much.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines, and please have a wonderful day.