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PRESENTATION

Operator

Thank you for holding, and welcome everyone to the TechnipFMC Second Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions) I will now turn the call over to Matt Seinsheimer, Senior Vice President, Investor Relations and Corporate Development. Mr. Seinsheimer, please go ahead.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Jack. Good morning and good afternoon, and welcome to TechnipFMC's Second Quarter 2023 Earnings Conference Call. Our news release and financial statements issued earlier today can be found on our website. I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements.

Known material factors that could cause our actual results to differ from our projected results are described in our most recent 10-K, most recent 10-Q and other periodic filings with the U.S. Securities and Exchange Commission. We wish to caution you not to place undue reliance on any forward-looking statements which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise. I will now turn the call over to Doug Pferdehirt, TechnipFMC's Chair and Chief Executive Officer.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Thank you, Matt. Good morning and good afternoon. And thank you for participating in today's earnings call. Our second quarter results reflect both strong operational performance and the achievement of several financial commitments. Subsea inbound orders were $4.1 billion in the period, representing a book-to-bill of 2.5. We delivered strong sequential improvement in adjusted EBITDA margin for both Subsea and Surface Technologies, including a 420 basis point increase in Subsea to 14.4%, the highest quarterly margin since 2018.

Free cash flow was $103 million in the quarter. And just yesterday, we provided 2 updates to our plans for shareholder distributions, with the first being the initiation of a quarterly dividend, and the second announcing the doubling of our previous share buyback authorization to $800 million.

Alf will cover these updates in more detail. When taken together, these successes demonstrate that we are clearly focused on what we believe to be the most important drivers of shareholder value.

Continuing with total company financial highlights in the quarter. Revenue was $2 billion. Adjusted EBITDA was $254 million with an adjusted EBITDA margin of 12.9% when excluding foreign exchange impacts. Total company inbound for the period was $4.4 billion. Total company backlog ended the period at $13.3 billion.

Subsea backlog grew 29% sequentially to $12.1 billion of which 81% will be converted into revenue beyond the current year. I'd like to take a moment to highlight the quality of the inbound secured in the period. Subsea orders included 6 integrated projects, including the direct award of our largest iEPCI to-date, a contract from Equinor for the BM-C-33 development in Brazil. Year-to-date, iEPCI has accounted for more than 50% of our order intake. We continue to expect iEPCI to achieve its highest ever inbound in 2023, enabled by a record level of iFEED activity that often converts to a direct award.

Importantly, 70% of our orders are expected to come from a combination of iEPCI, Subsea services and all other direct awards in the current year. In the second quarter, we continued to drive further adoption of our Subsea 2.0 configurable product platform. Equinor was the first to adopt the integrated project model and on the BM-C-33 project, they will be utilizing both iEPCI and Subsea 2.0. Also in the quarter, we were awarded our fifth consecutive contract by ExxonMobil in Guyana. This time for the Uaru development, which will also utilize Subsea 2.0.

And finally, last month, we signed a 20-year framework agreement with Chevron, under which TechnipFMC will provide Subsea 2.0 production systems for gas field developments off Australia's Northwest Coast. As evidenced by the addition of 3 new adopters in the second quarter, more and more clients are recognizing the benefits of our configure-to-order product portfolio, which reduces engineering complexity, shortens lead times and improve certainty and project execution.

With a strong inbound success in the period, Subsea orders for the first half of the year totaled $6.7 billion. And today, we are increasing our full year outlook for 2023 subsea orders to reach $9 billion. The backdrop remains very strong. The FEED pipeline continues to expand with more projects in advanced stages moving towards FID. Our Subsea opportunity list, which only extends out 24 months remains robust with an opportunity set of more than $23 billion based on the midpoint value of these subsea developments.

And while these projects are typically available to the broader market, the strength of our outlook is predicated on our unique view into the offshore market. This is evidenced by the fact that over the last 10 quarters, only 1/3 of our inbound orders came from the opportunity list with the other 2/3 being the result of a proprietary set of project and service opportunities that are unique to our company.

And as anticipated, we've seen increased activity in Subsea services. In the quarter, we announced an award from Equinor for Riserless Light Well Intervention Services. This contract provides us with scope that extends out to 2025. It is also important to note that our order outlook assumes little to no benefit from new offshore frontiers. And even without this optionality, longer-term visibility is improving. Our clients are securing capacity today for project inbound that extends execution all the way out to 2030.

These are among the many tangible signs we see that support our view that this will likely prove to be a very extended market cycle. And even more importantly, it speaks to the level of confidence. Our customers have an ability to safely deliver their projects on time and on budget.

In closing, we have strategically placed ourselves in a very differentiated position. More than 90% of our total company orders and revenue are generated outside the North America land market. We are fundamentally changing the way we operate our business to ensure that we create greater value for all stakeholders, and this is clearly being recognized by the market, given the continued adoption of iEPCI and Subsea 2.0.

In fact, the quarter represented the highest level of inbound activity for both iEPCI and Subsea 2.0 in our company's history. We look forward to sharing future milestones with you as we continue on our more ambitious journey ahead. I will now turn the call over to Alf to discuss our financial results.

Alf T. Melin - *TechnipFMC plc - Executive VP & CFO*

Thanks, Doug. Revenue in the quarter was $2 billion. EBITDA was $254 million when excluding foreign exchange loss, the impact of the previously disclosed legal settlement and restructuring and other charges. Operationally, we delivered strong sequential results. In Subsea, revenue was $1.6 billion, up 17% from the first quarter. The increase was largely due to higher project activity in South America, the North Sea and the Gulf of Mexico. Services revenue also increased when compared to the first quarter due to seasonal improvement, including higher installation and intervention activity.

Adjusted EBITDA was $234 million with a margin of 14.4%, up 420 basis points from the first quarter. Results benefited from the higher revenue, improved margins in backlog and increased installation and services activity. In Surface Technologies, revenue was $354 million, up 7% from the first quarter. Revenue increased primarily due to higher activity in the Middle East and North America. Adjusted EBITDA was $47 million, a 16% sequential increase. Results benefited from higher revenue and improved operational performance.

Adjusted EBITDA margin was 13.3%, up 110 basis points versus the first quarter. Turning to corporate and other items in the period. Corporate expense was $154 million. Excluding a nonrecurring legal settlement charge totaling $127 million, corporate expense was $27 million. The nonrecurring legal settlement charge in the period was related to the resolution of all outstanding matters with the French national prosecutor's office.

As previously disclosed, TechnipFMC is responsible for $195 million of the legal settlement. The charge represented an increase to the existing provision to now reflect the value of the total liability. Net interest expense was $30 million and lastly, tax expense in the quarter was $43 million. Cash flow from operating activities was $156 million. Capital expenditures were $53 million, this resulted in free cash flow of $103 million in the quarter, supported by solid customer collections. We ended the period with cash and cash equivalents of $585 million. Net debt was $844 million.

During the quarter, we repurchased 3.6 million shares for $50 million. Under the buyback program put in place 1 year ago, we have repurchased a total of $200 million of stock at an average price of just below $12 per share.

Moving to our guidance. For the third quarter, we expect Subsea revenue and adjusted EBITDA margin to be in line with the second quarter. For Surface Technologies, we expect revenue to be in line with the second quarter with the potential for modest improvement in adjusted EBITDA margin. For full year 2023, we expect Subsea revenue to be modestly above the midpoint of the guidance range, with adjusted EBITDA margin at the midpoint. For Surface Technologies, we now expect full year revenue and adjusted EBITDA margin to be modestly above the midpoint of the guidance range. For corporate expense, we still expect to land at the midpoint of the range. When considering our revised outlook, we now anticipate the range of outcomes for full year adjusted EBITDA to approximate $880 million when excluding foreign exchange.

Lastly, there is no change to our free cash flow guidance of $225 million to $375 million for the current year. This includes a $27 million cash payment that was made in the third quarter as part of the legal settlement. The remaining portion owed will be paid in roughly equal installments over the first 3 quarters of 2024. Looking further ahead, our 2025 outlook calls for significant growth in EBITDA from current levels, which we expect will translate into strong growth in operating cash flow. Let me take a moment to discuss how we think about the allocation of that capital.

First, there is the investment in our business. As we have stated before, we will maintain a disciplined approach to new investment. We have demonstrated for some time now that the strategic assets we own today can be managed and maintained in a capital-efficient manner. We have established a long-term target for capital expenditures of 3.5% to 4.5% of revenue, and we continue to believe that the changes we have made to our operating model will allow us to remain at the low end of this range, even in the current period of growth.

Now I will focus on shareholder distributions. We believe that returning capital to our shareholders should be viewed as fundamental to any investment thesis for TechnipFMC. In 2022, we initiated a $400 million share repurchase authorization and yesterday, we added an additional $400 million, doubling the authorization to a total of $800 million. As I stated earlier, we have completed $200 million of share repurchases under the authorization to date.

Additionally, we delivered on our commitment to a dividend, announcing a quarterly dividend of $0.05 per share, which equates to a 1.1% annualized yield based on yesterday's close. When the dividend and buyback are taken together, we are committing to distributions that will exceed 60% of our annual free cash flow generation through at least 2025. We also expect shareholder distributions to grow in line with or better than the growth in total company EBITDA in 2024.

While there is potential for the dividend to grow over time, our current expectation is that the majority of distributions will come from share buyback as evidenced by the significant expansion in the repurchase authorization. The final component of capital allocation relates to the balance sheet. We remain committed to achieving investment-grade metrics, and we are confident that our current financial plan can achieve that. The strength of our balance sheet today allows us to be more focused on capital investment and shareholder distributions.

At the same time, we will retain the flexibility to reduce net debt. Importantly, this capital allocation framework is not aspirational. It is a commitment, one that is supported by changes to our business and execution models, both of which are driving sustainable improvement in our financial performance. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Anderson with Barclays.

J. David Anderson - *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*

So the massive Subsea order intake this quarter sort of speaks for itself in the wake of all the offshore FIDs we saw this quarter. So just curious, in your view, that incremental $1 billion that you're looking on the order outlook this year, are these orders being pulled forward kind of compared to what you were expecting? Or are these on top of what you internally forecast as it relates to that 3-year order outlook that you provided earlier this year?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Thanks, Dave. I appreciate it. I think that it is important that we clarify, the strength of the first half is obviously exceptional, including this quarter, which was truly exceptional, not just in quantity, but in quality. And that's why I really tried to emphasize that in my script, we continue to be very selective. We are humbled and honored to be in a position to do so and we clearly demonstrated in the prepared remarks, the quality of that inbound in the quarter.

As we look forward, we remain deeply committed to the $25 billion by 2025. There is no concern, if you will, about things being pulled forward. We are very confident even more so, obviously, but remain extremely confident in the 2025 outlook for $25 billion by 2025. What's kind of unique about the strength of the first half of the year, is it's actually enabled us to take a view of 2024, which is a bit earlier than we normally would, but I'm actually going to let Alf share the good news.

Alf T. Melin - *TechnipFMC plc - Executive VP & CFO*

Well, thank you, Doug. Yes. Clearly, the strong Q2 inbound, which primarily will impact revenue in 2024 and beyond, is going to be very, very beneficial for us to move forward with an outlook here. So this is an early look. So as I mentioned in my prepared remarks, our updated company guidance for full year 2023 is approximately $880 million of adjusted EBITDA, excluding the foreign exchange component.

And that implies roughly a 30% growth versus 2022. So now if you take that and look into next year, and given the strength of the first half of inbound and given how much of that will actually impact '24 and given how much -- how the quality of that inbound and how much that helps the margin embedded in the backlog, my confidence in our ability to successfully meet our commitments on top of that, I believe we can deliver growth in adjusted EBITDA of 35% in 2024.

J. David Anderson - *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*

So that was actually where I was going. My follow-up question, I guess, is sort of related to this. I'm just curious about manufacturing utilization and how that might change in the next coming 12 to 24 months, and maybe you just answered part of that just with the surge of orders in the first half of the year. Doug, I think you said 70% of the inbound this year is Subsea 2.0 or somewhere thereabouts.

Even if the pace of orders were to slow a bit in the second half, I'm just wondering, would you expect to be kind of close to full utilization or at least what you would consider optimal manufacturing utilization kind of about the back part of '24. Just sort of thinking about Subsea margin progression in light of the higher-than-expected throughput next year into '25.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Sure, Dave. So we laid out already our ambition for 2025 to take Subsea margins all the way to 18%. We updated that, I think, just a couple of quarters ago, obviously, having these high-quality orders and in one way that we define that is as you just described, which is Subsea 2.0 gives us that greater confidence and it's not only the confidence to be able to achieve the margins, but also to be able to take the volume and give our customers the confidence to be able to give us the orders because they've seen the profound change that Subsea 2.0 or the configure-to-order operating model has had on our company.

And they've all been on this journey with us. The vast majority of them have spent considerable time within our facilities. They see what it does to the pace and the cadence and the throughput, which is what really allows us to be able to continue to enjoy the success and have confidence in the road that we're on. And I'll always repeat what we said here a few quarters ago, which are these are major milestones, but they are just major milestones on a more ambitious journey.

Operator

Arun Jayaram with JPMorgan Securities.

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Doug, I wanted to get your thoughts on just the quality or mix of orders that you're seeing this year, you now expect 70% of your orders to be integrated services, direct awards or Subsea services. And I just wonder if you could talk about how the market is evolving for Subsea 2.0? And how does the favorable mix -- how does that impact your thoughts on your 2025 margin guidance of 18% in Subsea?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Thank you, Arun. Clearly, the market is spoken, both in terms of Subsea 2.0 and in terms of iEPCI, both setting a record this quarter, iEPCI now achieving 50%. It's quite remarkable. And again, we remain very humbled with the level of confidence and trust that our clients put into our company. These are major projects, but they do so because of the company that has been created and because of the operating model that exists. Their greatest focus is on ensuring quality capacity within the industry.

And we've demonstrated time and time again to them through -- this isn't the first quarter or first year that we've been doing this, we've been doing this for a few years now, to where they really have all enjoyed the benefits associated with our new operating model and our ability to be able to give them the confidence that we will be able to deliver a project safely, on time and on budget, and that really remains the primary focus for them.

So look, I think the 70% is a phenomenal metric. And it's one that is unique to our company, but it's one that we cherish, and it's one that we don't see any reason that it's going to vary in any great degree from that 70% because, again, our journey is not done. And everything that we're talking about today, we're well into the next generations of the way of the operating model as well as the innovation and the technology that we're bringing into the market, both for the traditional energy, but as well for the new energy market.

So high level of confidence, Arun, it just gives you that much more certainty because you know what you're putting through your facilities, you know the work that you're performing. And it's not just us, it's our supply chain, which we depend upon, their performance and they get the same benefits as we do from this high-quality inbound.

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Great. My follow-up, Doug, is I was wondering if you could describe what you're seeing in some of the emerging offshore basins more exploration-driven. You know Patrick at Total had some positive comments on Suriname, and we did note that you raised in your opportunity list the potential project size to over $1 billion in Block 58. So wondering if you could give us a sense of what you're seeing in some of these emerging deepwater basins. Suriname, Namibia, Asia, et cetera?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Sure. We can add South Africa, Tanzania, Colombia, the Eastern Med, resurgence in Mexico and Mozambique, all, if you will, to that list. The first 2 being ones that there's a lot of eyes upon being both Suriname and Namibia, important to note that in our $25 billion inbound objective, it's really not depending upon these emerging basins, which give the strength to what happens in the latter part and into the next decade, which is when these projects will continue to add to the significant level of Subsea opportunities going forward.

Look, I don't have anything unique and I certainly wouldn't share to be respectful of our customers who speak often about their exploration in their focus area. I think if you just follow kind of the exploration activity and the rig contracts that are being taken on, I would consider that to be a level of enthusiasm and is certainly attractive enough to draw the capital into those basins. We remain very focused. Our intent is certainly to treat those basins and to create early success as we have done in Guyana and Mozambique. And that's by working very closely with our partners, building upon our long-term relationship and bringing them something that's unique and different from the rest of the market, and that's the iEPCI 2.0.

Operator

Luke Lemoine with Piper Sandler.

Luke Michael Lemoine - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

You just had a monster quarter in orders and raised your guide for the year, but this doesn't include any E2.0, which you've talked about could be, I believe, over $8 billion in orders through 2030. Can you talk more about this product? When do you think an order can be received and maybe how conversations are going with customers?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Sure, Luke. Thanks. Actually, it was a pretty big quarter for us in terms of our milestone on the journey. We've been working through a joint industry program with all of the major players that you would expect and they're actually working with us on a standard all-electric system that will provide them the opportunity set that they need at the same time, and I talked about this maybe last quarter or the quarter before, but what's really drawing our attention is the CCUS or, in particular, what we call the integrated carbon transportation system, where we'll be taking from the emitter and taking the CO2 offshore and injecting it Subsea, which would certainly be the most favorable way to do it, both from an ESG point of view and from a social point of view as well.

So the CO2 market is really looking like it's going to benefit from our configurable E CO2.0, as we call it. It's a tree that's designed to be unique for that application, and we're seeing several opportunities for that at this time as well. The benefit we have is we have over 600 systems installed using our all-electric technology, mainly around the valve actuation. So they've been in the water a long time. They've been tested for a long time. They're the industry standard.

So we'll be able to build upon that as we build out the complete Subsea all-electric architecture. And I do want to include our relationship we have with Halliburton in that as well because it's also about providing electric controls in the wellbore as well that rely on hydraulics, which then we can go to an all-electric system. So I think what we've put together, between our own technology and that with our partners is quite unique. And we continue to be excited, not only again for the traditional energy, but also for the CO2 market when it comes to all-electric system.

Operator

Kurt Hallead with the Benchmark Company.

Kurt Kevin Hallead - *The Benchmark Company, LLC, Research Division - Research Analyst*

So Doug, yes, I wanted to maybe get a little bit more insight around this competitive moat that FTI has been able to develop with the Subsea 2.0 as well as the iEPCI, et cetera. And you kind of heavily emphasized the amount of business that is coming in because of that dynamic. So how much of a competitive moat is that, how long can you sustain it?

And what are the key factors for an oil company when they're deciding to kind of go with what you're doing? Is it economics related? Is it execution related? Just wanted to give a little bit more color because I know you got a lot of opportunities here extending out into the end of the decade. And clearly, the oil companies find a lot of value in what you're doing. So just looking for more and more color on that.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Sure, Kurt. So first and foremost, we're extremely respectful of our competition and respect what they do. We've chosen to take a different path. We started that back in 2014 or 2015, you could argue as early as 2014 in terms of the Subsea 2.0 engineering work that went into the development of the configurable system. But that led to a joint venture, which led to the creation of TechnipFMC back on the 17th of January 2017.

It's really a combination. I mean, we're doing things differently. We believe it's better, but again, be respectful of what they're doing. And on top of that, we have built deep relationships with our customers where they know they can trust us and they know that we are focused on this business. We are a pure play. This is what we do. We believe we do it very well, but we enjoy doing it, and this is what we want to do.

And our challenge that we put in front of ourselves every day is to ensure that we create success for our customers and to make sure that the offshore market continues to economically be robust for them.

And how do we do that? And this factors into maybe the second part of your question, is we do that by a relentless focus on certainty because what they're looking at right now is an economic view that yes, there is a capital cost to do the project, but it's the certainty in the delivery of the project and when the economics start to get negatively affected, it's when projects are delivered late.

And we're out there giving our customers a value proposition with iEPCI 2.0 that's unique to our company, where we can give them first oil or first gas, up to a year earlier than the competition. So not only does that have a significant impact on their project returns upfront, but then they trust that we'll actually deliver it. And that's what we've built. We've done it consistently, and we will continue to do it consistently.

And they've grown to acknowledge that. They see that we've done things differently. We are a very different company than we had been, like others, traditionally. We use that period of time of 5 to 8 years to really redesign, reshape, reengineer the entire company to where we are today.

That being said, I'll close by saying, again, we're respectful of our competition. We're humbled by the trust that our customers place in us, and we have a relentless focus to continue to drive further differentiation or maybe using your analogy to deepen and widen the moat every single day.

Kurt Kevin Hallead - *The Benchmark Company, LLC, Research Division - Research Analyst*

Great. That's awesome color. So one other thing that you flagged here today was this 20-year frame agreement with Chevron, I know that FTI has had frame agreements with major oil companies for periods of time. But clearly, you felt it was extremely important to highlight this one in particular. So is this -- I guess, in your mind, do you think that this is a start of a trend where you're going to see more opportunities to have these extended frame agreements. Just to add a little more insight if you can on that, that would be great.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Sure. As you pointed out, we have a long history of deep and long relationships, many of which are exclusive with our company and have really built differentiation for us. We earn those every single day. But the reason specifically for calling out the Chevron frame agreement was because of the adoption of Subsea 2.0. So this is the first frame agreement with Chevron where they are going to the Subsea 2.0 configurable product family, which was a real highlight for us.

Operator

Marc Bianchi with TD Cowen.

Marc Gregory Bianchi - *TD Cowen, Research Division - MD & Senior Energy Analyst*

I wanted to ask a little bit more about the orders for this year. Now you've got this upgraded guidance of $9 billion, that leaves about $2.3 billion in the second half. How are you thinking about the unannounced and announced portions of this. By my math, it would seem to assume maybe a slightly lower unannounced piece and almost 0 large awards. Is that the right way to be thinking about the outlook here?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO & Executive Chairman*

Marc, I don't know that I'd draw any -- might be early to draw any strong determination of the mix. There will be more announced awards. I will certainly confirm that. Obviously, the strong base from our Subsea services. And as you know, the continued level of unannounced awards. So I think what you saw in the second quarter was just a phenomenal -- a phenomenal mix of announced awards in the second quarter, probably a bit higher in that mix, if you will, that you rightfully laid out.

So if you kind of look at that recipe going forward, there will be more announced awards, but probably not to the same level as we saw in the second quarter, which was quite exceptional.

Again, I think I just want to make sure the focus remains on the $25 billion. That's where our focus is. And our level of confidence has increased significantly in our ability to be able to achieve the $25 billion over, I guess, it would be right now the next 10 quarters or so.

Operator

And that was the final question. I will now turn the call back over to Matt Seinsheimer for final remarks.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

This concludes our second quarter conference call. A replay of the call will be available on our website beginning at approximately 8:00 p.m. British Summer Time today. If you have any further questions, please feel free to reach out to the Investor Relations team. Thanks so much for joining us. Jack, you may end the call.

Operator

This concludes today's conference. We thank you for your participation. You may now disconnect.
