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FTI.N - Q2 2020 TechnipFMC PLC Earnings Call

EVENT DATE/TIME: JULY 30, 2020 / 12:00PM GMT

CORPORATE PARTICIPANTS

Catherine MacGregor *TechnipFMC plc - President of Technip Energies*

Douglas J. Pferdehirt *TechnipFMC plc - Chairman of the Board & CEO*

Maryann T. Mannen *TechnipFMC plc - Executive VP & CFO*

Matt Seinsheimer *TechnipFMC plc - VP of IR*

CONFERENCE CALL PARTICIPANTS

Amy Wong *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

Kurt Kevin Hallead *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Marc Gregory Bianchi *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

Michael James Alsford *Citigroup Inc., Research Division - Director*

Sean Christopher Meakim *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Waqar Mustafa Syed *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the TechnipFMC Second Quarter 2020 Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Matt Seinsheimer. Thank you. Please go ahead, sir.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Lisa. Good morning, and good afternoon, and welcome to TechnipFMC's Second Quarter 2020 Earnings Conference Call.

Our news release and financial statements issued yesterday can be found on our website.

I'd like to call 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, the French AMF and the U.K. Financial Conduct Authority. 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 Chairman and Chief Executive Officer.

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you, Matt. Good morning, and good afternoon. Thank you for participating in our second quarter earnings call.

On the call today are Maryann Mannen, Chief Financial Officer; and Catherine MacGregor, President of Technip Energies.

Before commenting on our operational and financial results, I would like to begin by recognizing the resilience of our global workforce. While the health and well-being of our employees, partners and customers is our top priority, these dedicated teams worked tirelessly to maintain business continuity in a safe and responsible manner. And throughout this very challenging period, they continue to advance projects and meet customer requirements, which was evident in our second quarter results. We also made solid progress in 3 core areas - strengthening our balance sheet, progressing our backlog scheduling and accelerating our business transformation - all to ensure the success of TechnipFMC, both through the current cycle and over the longer term.

With regard to the balance sheet, we took a series of proactive steps in the quarter. We increased our liquidity by $1.2 billion, bringing total cash and liquidity to nearly $7 billion. And we secured a permanent modification to our primary debt covenant, which favorably impacts the company's total capitalization ratio. Together, these actions were taken to ensure that we have more than sufficient liquidity and can maintain full access to this liquidity in these challenging times.

Turning to backlog, we experienced no cancellations, highlighting the resilience of the nearly $21 billion of backlog we have today. This significant backlog provides us with good visibility that extends over the next several years.

Since the start of the COVID-19 outbreak, we have had constructive conversations with our customers. The dialogue has been very different than what we experienced in prior cycles. This has resulted in a more collaborative approach, creating new opportunities for us, enabled by our proven innovative solutions and demonstrated excellence in execution, and supported by the financial strength we possess to weather the market cycle. These unique attributes also allow us to more deeply engage in the way we partner and work with our customers.

Looking at the second half of the year, we continue to add new projects to our backlog. TechnipFMC has been selected for the Mero 2 SURF EPCI project located in the Santos Basin. We will soon announce a new iEPCI project in Asia Pacific, that will be using our latest 2.0 technology, and we have secured several projects that will be inbound upon final sanctioning, including Subsea installation contracts recently announced by Equinor and the EPC contract for the Assiut Hydrocracking Complex, we announced earlier this month.

Our strong balance sheet and liquidity position and our extensive backlog have also provided us with the flexibility to accelerate our business transformation, with global actions underway to generate annualized cost savings in excess of $350 million by year-end. We first highlighted the business transformation during our fourth quarter earnings call. These initiatives are driven by changes and opportunities created from the successful introduction of new business models, innovative technologies and digital solutions across our business.

First, going forward, we will need fewer assets to deliver more comprehensive solutions. We will have fewer operating bases, service facilities and manufacturing sites. We are optimizing our operations across geographies, and if economic returns don't make sense, we will look to exit.

We will have a smaller fleet. We continue to right size our assets to better align with our differentiated offering and the advantages of new technologies, such as Subsea 2.0 and integrated project delivery. And we continue to partner with others, providing us access to unique assets in a more capital-efficient manner.

Second, we are taking targeted actions across the portfolio, particularly in Surface Technologies. In North America, we continue to transform our operations by working with our customers to further drive wellsite operational efficiencies and lower greenhouse gas emissions. And we are leveraging the strength of our international franchise to capitalize on the longer-term growth anticipated in the Middle East, Asia Pacific and the North Sea.

And finally, we continue to leverage digital technologies across our organization. Looking at one of our most recent innovations, we are accelerating the development and implementation of our Subsea Studio digital platform. Subsea Studio allows us to significantly reduce the time required for front-end engineering by as much as 50%, utilizing machine learning and AI to rapidly evaluate field development scenarios, leveraging the industry's largest database of prior projects and best practices. All of these actions are fully aligned with our strategy of market leadership and business transformation.

These actions will drive the most value when we align with those clients and partners that demonstrate a willingness to embrace new commercial models and new technologies. We are further streamlining all of our businesses towards simplification, standardization and reduce cycle times.

In 2019, the vast success of our Subsea integrated model was driven by the strength of our partner relationships and resulted in the company's highest annual growth rate in order inbound in over a decade. And we expect to enter into another exclusive iEPCI alliance that will be announced in conjunction with the client's first integrated project award. As I've said before, those that adopt innovative solutions are more likely to succeed in the new energy landscape. And we are even more convinced of this today, given the dramatic change in the external environment and its impact on our customers.

And lastly, the third pillar of our business transformation is focused on the strategic initiatives across our portfolio that will deliver new, sustainable solutions to our clients. These initiatives will allow us to leverage our core competencies in engineering, manufacturing and project management - skills that are transferable and can be applied beyond traditional market segments. In Subsea, we have created fundamental change in the way we design, manage and execute projects, incorporating our Subsea 2.0 platform and greatly simplified the Subsea infrastructure, while reducing greenhouse gas emissions by nearly 50%. When combined with iEPCI, it also simplifies vessel installation campaigns, providing an even greater environmental and economic benefits.

Our vision for Subsea includes an all-electric Subsea system, powered by renewable energy. This will further simplify the Subsea infrastructure and reduce, if not eliminate, environmental emissions.

In Technip Energies, we have significant expertise and prospects in the area of sustainable chemistry. Notably in biofuels, as Neste's partner of choice for renewable diesel projects. And we have further expanded our footprint in the circular economy through our collaboration with Carbios to demonstrate their recycling technologies.

We have recently extended our Genesis offering to provide a portfolio of advisory services across all of our markets with a particular focus on energy transition. And we see a very exciting future for hydrogen, where we already have proven technology and references for blue hydrogen and are well positioned for the emerging market for green hydrogen.

In Surface Technologies, we offer high-efficiency solutions that enable our clients to reach hydrocarbons faster with fully optimized and environmentally compact systems. Today, we have a project utilizing our integrated production system, iProduction, allowing the client to capture over 50% of the greenhouse gases that are typically released into the atmosphere during the production phase of an unconventional development. In summary, we have the expertise across all segments of the business to deliver the innovative, sustainable solutions that will enable our clients to meet their carbon reduction ambitions.

Let me turn to the Subsea outlook. On our first quarter call, we noted that up to 50% of the estimated $15 billion in project value captured on our Subsea Opportunity list could be extended beyond the 24-month window. The updated list now reflects real evidence of this trend. Based on public disclosures made by operators, we have identified 8 specific projects that have been extended beyond mid-2022. Importantly, none of these projects have been canceled, and they remain longer-term opportunities for future awards. There have also been new projects added across 4 different basins that we believe will be awarded within the next 2 years, suggesting that previously identified reduction in value for these opportunities, once thought to be as high as 50%, is actually closer to 30%. Remember, the Subsea opportunity list is not a complete list of opportunities available to TechnipFMC. Beyond this large project activity, our orders have been driven by Subsea services, direct iEPCI awards and small project activity, much of which is exclusive to our company.

This opportunity set has generated over $3 billion of inbound in each of the last 3 years and is enabled by our market-leading installed base, growing list of alliance partners and unique integrated feed capabilities. Our front-end engineering teams remain very active, and more than 60% of all integrated feed work is leveraging the benefits of Subsea Studio. We believe this will generate additional proprietary opportunities, some of which will come from our exclusive alliance partners over the next 12 to 18 months.

For 2020, we continue to believe inbound orders will approximate $4 billion. In the first half of the year, we had $1.7 billion of subsea inbound. And with 5 months remaining in the year, we already see a similar level of inbound for the second half of the year coming from subsea services, small project activity and large project awards pending public announcement. In the interim, we will continue to work closely with our customers as they adjust to the current environment, and we are excited to serve the new entrants that will likely step in to operate potentially stranded opportunities.

That said, long-term success in Subsea is driven by economics, innovation and relationships, all key attributes of TechnipFMC. This makes us uniquely qualified to remain the Subsea partner of choice now, more than ever.

Turning to LNG, we are currently in the delivery phase of 2 major projects, Coral floating LNG and Arctic LNG 2, and we continue to advance through the warranty phase of Yamal LNG. Yamal has been the industry's most successful project ever, and the strength in our execution certainly played a role in the Novatek-led consortium's decision to direct award Arctic LNG 2 to TechnipFMC.

Despite the challenges of COVID-19, we are making good progress on all of these projects. On Arctic LNG 2, we continue to expect the activity to ramp as scheduled over the remainder of 2020. And on the Coral FLNG, we continue to achieve key milestones relating to module integration and instrumentation. Successful execution of these technically and logistically complex projects create strong references, leaving us well positioned to be a key player in the development of the industry's most strategic LNG projects.

Market dynamics have shifted in recent months. And this will alter the broader LNG landscape in the near term. The number of economically viable projects is likely to decline, but the same can be said of the list of qualified EPC contractors, which will be challenged in this period of subdued project sanctioning. This is not the case for Technip Energies. We have demonstrated remarkable resilience through past cycles, and we don't see this as the start of an extended downturn for us.

We have already been awarded 2 additional projects, the first being Rovuma in Mozambique, and the second, Energia Costa Azul in Mexico. Both remain subject to final investment decision, and neither of these projects are included in our backlog. While Rovuma has been delayed until 2021, the operator for Costa Azul continues to indicate that FID will take place this year.

In addition, we are actively tendering a major project in the Middle East and performing front-end engineering work on other LNG prospects; some of which are likely to move forward due, in part, to their strategic importance to their host country. This potential portfolio of LNG projects will provide us with well-timed project overlap and operational continuity.

And the portfolio beyond LNG remains diverse. We have built a solid track record of successful execution, delivering strategic references in areas such as downstream and petrochemicals that leave us well positioned for future project awards.

We entered this period with a solid foundation built upon the strength of our balance sheet, backlog and execution. While client conversations remain ongoing, the increased visibility we have today gives us confidence in our full year guidance for all business segments. This is further supported by the acceleration of our business transformation initiatives to maintain, if not expand, our market leadership.

I will now turn the call over to Maryann to discuss our financial results in more detail.

Maryann T. Mannen - *TechnipFMC plc - Executive VP & CFO*

Thank you, Doug. Looking at our headline numbers for the quarter, revenue totaled $3.2 billion driven by solid performance in both, Subsea and Technip Energies, while Surface Technologies revenue was impacted by a severe decline in activity in North America. Year-over-year revenue decreased as a result of reduced activity, operational headwinds from COVID-19 and foreign exchange impacts.

Adjusted EBITDA in the quarter was $241 million. We accelerated our cost reduction program and are on track to deliver cost savings of more than $350 million by year-end. And we expect a greater benefit from these savings in the second half of the year with the full impact realized in 2021. We estimate total cash cost to achieve our planned cost savings target to be approximately $75 million.

Underlying corporate expense have improved over the last 3 consecutive quarters, giving us confidence to lower our full year guidance, which I'll come back to in a moment.

Beginning with the second quarter, foreign exchange impacts are now reported separately from corporate expense to provide greater clarity in our financial statements. Adjusted earnings per share for the quarter were $0.09 when excluding after-tax charges and credits. Included in our adjusted earnings are expenses resulting from increased liability payable to joint venture partners, included in interest expense and foreign exchange losses. Together, these 2 items impacted EPS by $0.12 per share in the period. And if excluded, our adjusted earnings per share would have been $0.22 per diluted share.

The company ended the period with cash of $4.8 billion. Net cash was $303 million. We have increased visibility on our cash uses and inflows for the remainder of the year and have provided guidance around our free cash flow outlook.

Turning to the segment highlights. Direct COVID-19 expenses for the company totaled $57 million in the second quarter. Year-on-year Subsea revenue declined by 9%, but would have been unchanged when excluding the negative impact of foreign exchange translation of $129 million due to the strengthening U.S. dollar. While year-over-year comparisons are usually more relevant for this segment, the 10% sequential improvement in Subsea revenue demonstrated our ability to mitigate COVID-19 related disruptions in the quarter.

Subsea adjusted EBITDA margin was down 510 basis points versus the prior year quarter, primarily due to the negative operational impacts related to COVID-19 and more competitively priced backlog, mitigated in part by cost reduction initiatives. Sequentially, the margin only declined 120 basis points as strong execution partially offset an entire quarter of COVID-19 related disruptions.

Looking at Technip Energies, execution remains solid across the portfolio. Revenue increased versus the prior year quarter, driven by higher activity across LNG, downstream and our Process Technology business. The continued ramp-up on Arctic LNG 2 more than offset the decline in revenue from Yamal LNG. Adjusted EBITDA margin of 10.6% remains strong even as we return to more normalized levels, given a reduced year-on-year contribution from Yamal and lower margin realization on early stage projects. Although no project awards were announced during the second quarter, inbound orders of $836 million demonstrated good activity in services, Process Technology and Loading Systems as well as expanded scopes on existing contracts.

And in Surface Technologies, revenue was significantly affected by the dramatic decline in operator activity in North America. Revenue outside North America proved to be resilient with only a modest sequential decline, supported by solid activity in the Middle East. Sequentially, adjusted EBITDA margin declined 400 basis points to 3.4%. The decrease was driven by the significant decline in rig count and completions-related activity in North America.

We are aggressively addressing our cost base. In North America, where the majority of our restructuring for the segment has occurred, we have significantly lowered the breakeven point, which supports our expectation for positive adjusted EBITDA in North America for the full year.

As Doug mentioned in his remarks, we have taken actions to reduce the impact of the current economic environment on our financial and liquidity position. We added 2 additional liquidity sources in the quarter, a EUR 500 million revolving credit facility. This facility is undrawn. And a GBP 600 million Bank of England COVID-19 commercial paper facility. This facility carries lower interest rates than most of our other sources. We took the opportunity to secure this for the incremental liquidity, if needed, but it has the benefit of lowering interest expense in these challenged credit markets.

Given the assets to lower cost funding, we repaid the $500 million outstanding balance on our existing revolving credit facility. When considering all actions taken in the quarter and including cash of $5.6 billion, net liquidity stood at $6.8 billion at the end of the quarter, up $1.2 billion when compared to the end of March. In the quarter, we also secured a permanent amendment to the debt-to-capitalization covenant of our revolver, allowing for the add-back of $3.2 billion of previously impaired goodwill. This significantly increases the equity value used in the calculation, providing us with strong support liquidity available to us today. The ratio for the second quarter is 38%.

In the quarter, we all took steps to extend our debt maturity profiles. First, with the private placement that came due this month, we are currently working to address the short-term maturities coming due in 2021.

Turning to guidance. We are now providing 2020 guidance for all 3 operating segments as well as free cash flow. In Subsea, we are guiding full year revenue to be in the range of $5.3 billion to $5.6 billion, supported by the backlog scheduled in the second half. In addition to backlog, we continue to expect full year revenue for subsea services to be approximately $1 billion. We expect adjusted EBITDA margin of at least 8.5%, implying a second half recovery.

For Technip Energies, guidance is unchanged from the first quarter, with revenue in a range of $6.3 billion to $6.8 billion and an adjusted EBITDA margin of at least 10%. The implied step-up in second half revenue is in line with the continued ramp in major projects as supported by our backlog scheduling.

And in Surface Technologies, we expect revenue in the range of $950 million to $1.15 billion with revenue outside of North America representing around 60% of the total segment revenue for the year. We expect adjusted EBITDA margin of at least 5.5%, broadly in line with the first half but demonstrating recovery from the second quarter low.

Turning to other guidance items. When excluding charges and credits, we now expect corporate expense of $130 million to $150 million. This is an improvement of more than 30% at the midpoint of the range versus prior year. The expense reduction reflects earlier than expected achievement of the cost reductions that we discussed last quarter and lower spending in the first half of the year due to COVID-19 constraints. This guidance also assumes a more normalized operating environment in the second half of the year. We expect our reported tax provision for the full year to be between $80 million and $90 million, excluding discrete items. While adjusted net income is forecast to be higher in the back half of the year, the tax provision should be slightly lower due to a change in jurisdictional mix. Free cash flow, which we define as cash flow from operations less capital expenditures, is expected to be between cash flow neutral and $150 million. All other guidance remains unchanged from the first quarter.

Beyond free cash flow, we expect to make an additional cash dividend payment to the Yamal joint venture partners of approximately $100 million in the second half of the year.

In summary, in an extremely turbulent time for the sector, our execution has remained strong, and we are well on track to exceed our targeted cost savings. We continue to take steps to improve free cash flow and remain focused on our cost structure. Our strength in cash and liquidity and robust backlog have enabled us to accelerate our business transformation. And with the support of our cost reduction initiatives, our demonstrated ability to execute against a multitude of external headwinds and our improved visibility into the backlog, we have provided guidance across all segments given the greater confidence we have in our full year outlook.

Operator, you may now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Michael Alsford from Citi.

Michael James Alsford - *Citigroup Inc., Research Division - Director*

One on Subsea, if I could, please. I'm just really -- could you talk a little bit about the margins for Subsea? I think within the guidance, you've obviously split out direct related to COVID costs out of Subsea margin, but it's still quite low quarter-on-quarter like you guided -- or rather you talked about. So could you perhaps talk a little bit about what's the driver of that weaker margin, please?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you, Michael, very much for the question. We -- not only did we deliver on the Q2 results, we also provided you guidance now for the outlook for the remainder of the year which actually has an increased delivery in the second half of the year relative to the first half of the year and an expectation of margins for at least 8.5%. Clearly, in the second quarter, we were challenged operationally by direct COVID expenses that were called out. But also indirectly, obviously, the overall business and the flow of the business was impacted. Happy to report that through the quarter, and certainly, since we spoke in this forum, most recently back at the end of the first quarter, conditions have certainly improved. At that point, we had a significant number of our total operations that were either temporarily suspended for extended periods of time. We're now back to having all of our facilities operating.

That being said, we're not back to 100% operating efficiency. Although, again, the resiliency of the workforce and their dedication has really delivered some phenomenal results. So we expect that to continue to improve. Obviously, with the caveat that we don't know exactly what will be the future impacts of -- if there were to be future impacts related to the pandemic. But very proud of the work that the team has done, the progress that they've made, the ability to now have the confidence to give you the full year outlook for 2020, with margins continuing to improve in the second half.

Michael James Alsford - *Citigroup Inc., Research Division - Director*

Doug, I appreciate the extra visibility from the guidance given today. Just a quick follow-up, if I could, on Qatar. You seem very well placed there given the work that you're doing on the FEED. I was just wondering whether you get any sense as to when that might come to be awarded. Is it still likely to be pushed into next year? Or do you feel that there might actually be a 2020 sanction?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Certainly a very exciting opportunity, and I'm going to ask Catherine to provide more color.

Catherine MacGregor - *TechnipFMC plc - President of Technip Energies*

Yes. Thank you very much. Thank you for the question. Certainly, an extremely exciting opportunity. As you rightly said, we've been engaged in that project for a long time with a partner of choice. We've also been involved in previous projects in the past. So this is a country, an environment, a customer that we know very well as well as the technology. So we're absolutely delighted to be involved in the feed and preparing for this tender.

As far as the timing of the sanction and the FID of the project, obviously, all the indications tend to confirm that this project is, indeed, of strategic importance for QP. The signs and the communication that we are receiving from our customers make us look forward to this project to be sanctioned in the near future. Now whether it will be this year or early next year, frankly, it's very difficult for us to say. I could not answer precisely to this question. But the key for us is that this project is indeed very important, interesting and indeed likely to be sanctioned in the near-term. Thank you.

Operator

Our next question comes from the line of Marc Bianchi from Cowen.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

I guess, first question, just looking at -- you mentioned some of the COVID disruptions, and you called out the expense in the first quarter and the second quarter. As you look to the back half, can you give us any sense of what sort of an adjustment we should be expecting?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. As I mentioned on the earlier question, we're certainly -- have made significant progress and really, again, putting the health, safety and well-being of our employees first, set some industry standards and best practices that we've now shared, not only with our clients, but with our peers and competitors on ways to really try to minimize the spread of the virus, particularly in tight quarters, as an example, on vessels in the manufacturing plants, et cetera. And really, really pleased with the progress that we've made. Obviously, the challenge remains, will there be additional implications that we are not aware of yet today that could occur in the second half. And I'll ask Maryann to provide a bit more color.

Maryann T. Mannen - *TechnipFMC plc - Executive VP & CFO*

Certainly. Thanks, Doug. So as we think about these COVID-19 costs that we call out directly, maybe a bit about what they are. These are extraordinary expenses. They are unplanned. We do not expect them to be recovered. These would be, as Doug mentioned, when we have a facility that is closed, as an example. These are not costs of inefficiencies in our plant, as Doug mentioned, meaning lower utilization, lower operating rates, the impact of delayed supply chains. Those stay within our margins. And as Doug explained, we are beginning to see some return to normal. So assuming that trajectory continues, and we all know we can't necessarily project that, we would expect to see less in the third quarter. These are costs that we would expect to be eliminated from our operating structure, given their nature. As we stand today, again, challenging to project what would happen with COVID, but we would expect them to be less in the back half. And then as we continue to return to a more normal environment, we certainly wouldn't be calling them out anymore. The rest of those costs would remain as they do in our margins.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

Sure. Okay. On the cash flow, the back half cash flow that is implied by the full year guidance is pretty strong, kind of $250 million to $400 million is the implied range. I'm just wondering if there's anything unusual milestone payments or anything like that. Or if we should think about that kind of implied conversion of EBITDA to free cash flow as what the business can really do on a recurring basis?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

An important question, and we appreciate you asking it because we would like to provide some additional color. And when we think about our company as a projects business, having prepayments on awarded projects, if you will, is not unusual, right? It's part of the overall mix and part of the projections that we need to make. And Maryann will provide some additional color.

Maryann T. Mannen - *TechnipFMC plc - Executive VP & CFO*

Sure. Thanks, Doug. One thing to keep in mind is as you look at the year-to-date performance, in particular, in the quarter, we had 2 items that happened in the quarter that I would say are certainly not necessarily operational and not repeating. And the first is we made our second payment against a previously settled litigation. And that outflow happened in the second quarter. Obviously, that's not repeating in the back half of the year. And you also may have seen the discussion of a settlement of about $130 million in the Technip Energies segment. While we were successful and good news in settling that this quarter, we will not see the cash flow attributed to that settlement until the beginning of next year.

The second part of your question is whether or not you can consider the back half of the year as a more normal conversion. And I would say we're beginning to get there. As you well know, as Yamal continues to be a smaller contribution to our EBIT, and frankly, less impact on working capital, we have less working capital impact in the back half of the year, and you can begin to see greater conversion. We are obviously assuming a series of projects milestones. We stay -- obviously, try to stay cash flow positive across those. You see the EBIT in the back half of the year based on our guidance, would be improving. So you can begin to look at the back half of the year as a better representation of the conversion that you should expect in a more normalized environment.

Operator

And our next question comes from the line of Amy Wong from UBS.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

A couple of questions from me. Firstly, on your Subsea order intake, you sound very confident that you'll hit that target. Can you just talk about some of the conversations that you're having with your clients? What are kind of the sticking points for them to make FID? How is pricing evolving? Just give us a bit more color on those conversations, please?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure, Amy. In my prepared remarks, I tried to highlight the fact that we have received several awards, which have not yet been announced or not yet been met all the requirements for us to include in our backlog, both in Subsea as well as in Technip Energies. So in Subsea, I talked about a project in Brazil. I talked about a project in Asia Pacific, which by the way, is an iEPCI project utilizing Subsea 2.0 technology. And I talked about a portfolio of projects in the North Sea recently announced by Equinor.

In addition for Technip Energies, we announced the Assiut project, which is over $1 billion in total value. So it's been a strong period for us in terms of awards. We have not been able to inbound all of those yet. Conditions haven't been met, but will be met. It's not a question of if the projects will be sanctioned, it's just a slight timing issue. And unfortunately, a few of those fell outside of Q2, but they certainly will be in Q3. That's what provides us the confidence.

So in my prepared remarks, to be very clear, I said that we have $1.7 billion in the first half of the year. And we already have a clear line of sight on another $1.7 billion. So I think you have to look past the Q2 order rate just because a lot of things fell into early Q3 or were awarded in Q2 but will be FID-ed in Q3. So if you add those together, we have 5 months to fill in the last 10% to approximate the $4 billion of the guidance that we had previously provided; and therefore, I still have confidence, Amy, that we will achieve that.

In terms of the conversations and the pricing, the clients are very much focused around ensuring they can achieve the very best project economics. Therefore, the majority of the conversations that we have and a very large portion of the total awards that we receive are direct award into our company, most of which don't actually come from that Subsea opportunity list that we publish, which is the list for the public domain that others also have access to. We have a list that -- and I indicated in my script, as much as $3 billion a year on a reoccurring basis that is exclusive to our company. This is what makes us so unique and which allows us to not only be the market leader, but extend our market leadership with our new technology offerings and our new commercial models.

So those conversations really aren't around pricing, Amy. They are on the project economics. And we work together with a client in a very collaborative way to achieve those most favorable project economics. That's the difference between our company and the others in this space.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

That's very good insight. Just a quick follow-up for Maryann. For the cost savings, could you quantify how much of the cost savings were realized in the second quarter, please?

Maryann T. Mannen - *TechnipFMC plc - Executive VP & CFO*

Yes. Thanks, Amy. As you know, what we've indicated is by 2021, we will have achieved all of the $350 million plus. So that run rate going into 2021 will be at least $350 million. We're ahead of that trajectory as we get -- as we're planning to get there. So we are more than 50% complete with all of the actions that we need to take in order to achieve that through the half of this year.

Operator

Our next question comes from the line of Sean Meakim from JPMorgan.

Sean Christopher Meakim - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Doug, just to start on -- or actually to continue on the Subsea margin discussion. The guidance for fiscal '20 implies a 9% plus type of number for the back half. So directionally, that's constructive. It's early, but investors are going to start looking to 2021. So maybe too early for guidance, but maybe not too early to think about some of the building blocks. This year, you guided to at least $4 billion of awards. That's below 2020 revenue, so maybe growing revenue next year is a bit more challenged, that's where we end up. But I think your award commentary sounds pretty constructive here for some potential upside, maybe that's back half '20 or first half '21. Services opportunities could be better if COVID disruptions recede. Book and turn, still obviously very important. How would you frame those building blocks in terms of what drives margin progress back towards a more normalized level next year?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sean, thank you for the question. And I think you highlighted the building blocks very well. If you look at the order inbound projection for 2020, as we just discussed, you can start to project that in 2021 we already have a lot of the potential revenue covered. We have a strong backlog. We've obviously just got done talking about additional awards and the additional awards in the second half of this year.

So as far as the revenue line, and you're right, it's early to give 2021 guidance, let's remember, we just today, are giving H2 2020 guidance, given the disruption that the world experienced last quarter. But it's fair to talk about. And as you said, we're seeing a nice progression of the margins in the second half of the year based upon the guidance that we provided. And as we look into 2021, we expect to continue to improve in terms of getting back to more normalized operating efficiency. We have a strong backlog. We'll be adding new orders, as we just discussed. So when you look at it, again, it gives us confidence that we're going to continue to be able to go back to more normalized level of margins.

Now one headwind -- there's several, but the one headwind that I would point out that didn't come up in the -- in your question, is the fact that as some of this backlog rescheduling has occurred, it's naturally pushed out the latter stages of the iEPCI projects or any Subsea project. When we -- certainly, for us, it's the benefit of having the iEPCI projects. It's pushed out that installation campaign, in some cases, pushed it out of 2021 and into 2022. So that's the one headwind will be basically the fleet and the fleet utilization and the economic -- the low utilization, the economic impact that would have. That would have largely dissipated in 2021 based upon the strong orders we had in 2019 and, again, what we were originally expecting for 2020.

So, it's kind of a balance. But I think when you look forward, you -- there's -- the backlog's strong. The backlog's resilient. We're getting new orders and certainly have a very large portion of the total market. We continue to add new alliance partners. It may not have come across in the script, so I'll repeat it. We are about to announce a new iEPCI exclusive alliance partner, a serious player in the subsea space.

So, things are moving in the right direction. We obviously have to allow the COVID impact to dissipate, get back to a more normalized environment. We don't know what the future will bring in regards to the pandemic. So we have to be cautious. And we also have to consider that there's a bit of a headwind. But all that means is we're going to continue to move forward in the accretive and constructive direction in terms of the Subsea margins. But realizing that the real benefit of the recovery of the fleet and the installation will now be more likely in the latter part of 2021 and 2022 versus -- which would have been more in 2021. I hope that helps you, Sean.

Sean Christopher Meakim - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

That is very helpful, Doug. I appreciate that feedback. Maybe we could just have a similar discussion around Technip Energies, just thinking about building blocks into next year. So in this case, Yamal roll off is likely a headwind year-on-year for margins. Some big new projects still starting up.

That's likely another headwind, at least for 2021. But maybe coverage for revenue looks more secure than Subsea. So that probably helps to some degree. Just curious how confident you are in terms of being able to stay in that sweet spot but perhaps lower margins than when Yamal was a bigger part of the mix, but still staying above that underlying downstream level. So perhaps somewhere in the high single-digit type of range.

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. Well, Yamal is not over yet. And we do have a large portfolio of other projects that are very important to us as well. And I'll pass it to Catherine to provide more color.

Catherine MacGregor - *TechnipFMC plc - President of Technip Energies*

Yes. Thank you. Thank you very much because similarly to Subsea, I have to say, you also described the building blocks very well. Thank you.

So we have, as you know, very, very strong backlog, $13.8 billion at the end of Q2, which is going to generate, indeed, a lot of revenue and strong revenue next year.

In terms of mix, you've described it well, we're expecting a step down in Yamal revenue, which will obviously affect the aggregate EBITDA of our results next year.

On the other hand, the remaining of the portfolio has been accumulated in our backlog from a very selective approach. As you know, we're very far in the way, and we make sure we choose, and we're very selective in the prospect, in the project we are involved in. So that is reducing in a very sound gross margin side backlog ex Yamal. And you will see that next year in our portfolio.

So very much linked with the execution that we've demonstrated, that we are demonstrating. You can expect consistent delivery in EBITDA. We'll have to normalize, for sure, for Yamal. We'll have to take into account that Artic LNG 2 is progressing well. It's going to continue to ramp up. It will continue to be in the early phase, which obviously is associated with a prudent margin recognition. But overall, I would say, very strong, consistent margin profile that we expect from next year with that change in mix that you're understanding very well.

Operator

Our next question comes from the line of Kurt Hallead from RBC.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

My initial follow-up question is for Maryann on the free cash flow guidance that was provided for the full year. Just wanted to get some clarity on that. Does that free cash flow already embed the $100 million of expected payments that are going to go to the Yamal JV partners?

Maryann T. Mannen - *TechnipFMC plc - Executive VP & CFO*

Kurt, so that Yamal payment actually falls below free cash flow, you see that in the financing section of the cash flow. So short answer is no. That payment is not in our free cash flow expectation because it doesn't fall there as it unwinds. But the back half of the year does include, obviously, assumptions for project progress and inbounds and other milestones around the projects as we outlined. Hope that addresses your question.

Kurt Kevin Hallead - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Yes. That does help. And then, Doug, you definitely aroused my curiosity with respect to your commentary around some of the strategic initiatives for the Subsea and Technip Energies, especially as it relates to the all-electric-powered Subsea system as well as your commentary about blue and green hydrogen for Technip Energies. So I know it's going to be way too early for this to have a financial impact within the next year or 2. But I'm just wondering what kind of momentum you see building for Technip, specifically for FTI and specifically within the course of the next, I don't know, 6 to 12 months. And what kind of traction do you think you can get within that time period for those initiatives?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Well, Kurt, you touched on the 2 key ones. A lot of the other initiatives, I would say, are not obvious in terms of their momentum and certainly not obvious in terms of the returns associated in those -- in some of the renewable space. And although we are participants across the renewable space, we really want to focus on where we can provide differentiation and we can have returns that are very attractive versus, if you will, some of the more commoditized parts of the renewable space. So you touched on the 2 key ones. And it's very much how we see it, which is the electrification of the offshore, which is a big, big opportunity. I would say there is a tremendous amount of enthusiasm and momentum on the subject. And we are very, very uniquely positioned here because there's a lot of attributes and technologies that are required to be able to do this. It's not simply providing the electricity, but it's the infrastructure and the equipment and the design and the interfaces with the Subsea completions that are really, really unique. We've been working on this for a period of time. We're partnering well with others in this space, and we believe this will be a very attractive opportunity for our clients as they have stated environmental ambitions that we can become a key partner for them and help them reach those ambitions. And, this is an example of how we could do that.

We're looking beyond just the electrification, and we're actually looking at the electrification through renewable energy. This is where our experience of being involved in the very first offshore floating wind farm gives us a lot of credibility in this space and a lot of experience and knowledge in this space. And as an example, not necessarily from offshore floating wind, but that could be a very unique solution and one that we're very well positioned to be able to provide to our clients. Another potential energy source could be hydrogen, as you point out, and we're very excited about that.

I'm going to pass the microphone to Catherine and let her talk a bit about our vast experience in the area of hydrogen.

Catherine MacGregor - *TechnipFMC plc - President of Technip Energies*

Yes, sure. And thank you -- thanks, Doug. Thank you for the question. Obviously, we are extremely excited by the momentum around hydrogen these days. We do believe that hydrogen is going to play a pivotal role in the future energy mix being such a clean energy carrier, many, many different applications. The nice thing for us is that we've been in hydrogen for pretty much 60 years. We've installed 270 plants around the world. And obviously, this was called -- this is what we call gray hydrogen. But we've also -- and people might not know that. We've actually built 50 blue hydrogen units also across the world. So we have a very differentiated offering with a proprietary steam reformer unit. We have capabilities with some special equipment that help reduce CO_2 emissions. So we have a lot of technology references and experience.

In addition, we have a technology partnership on carbon capture. So when you combine all that, you understand why we are so excited about the prospects in blue hydrogen. And of course, when you look at the projection of hydrogen demand and hydrogen projection, there will be the need. And the most exciting proposition, if you like, comes from the green hydrogen, which is pure clean hydrogen. However, the economics and the commercial equation does leave a lot of room for the blue hydrogen, which is the gray hydrogen with carbon capture, which is something that we commercially can today -- can provide today. So that's a very exciting, strong position for us today.

If you look at the green hydrogen, obviously, it's a little bit more emerging. We also are excited about the capability and the potential of integrating green hydrogen units at industrial scale. So for large industry, which will benefit from green hydrogen, we think that our role as an integrator, project management skill integration will be very useful in helping making the economics of this project work. So no matter what you look, where you look in hydrogen, we think Technip Energies, indeed, has a big role to play. So that's very exciting, and it's starting now, by the way. So back to you, Doug.

Operator

(Operator Instructions) Our last question comes from the line of Waqar Syed from ATB Capital Markets.

Waqar Mustafa Syed - *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

You've talked about the green hydrogen and other energy transition ideas. Would you say that within all your different ideas -- and is the hydrogen aspect the most exciting that you're working on? Number one. And number two, as a percentage of revenue, what is the contribution right now from these emerging or energy transition stories?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. So thank you very much, and appreciate the question. And obviously, an exciting subject to follow up on. I'll be brief because I know we're running out of time. Actually, the electrification offshore, I would say, is as exciting about is hydrogen and could be very, very impactful. We're talking about going to zero-emission production that is quite significant. When you look at hydrogen, yes, of the renewables and of the differentiation that we have in this space, for us, it is the most exciting. And we believe or we can create the most differentiation and get very constructive returns, again, as opposed to a lot of the renewable space, which is the award numbers are large, but the returns are poor. And that's not the type of projects that we want to focus on. So we're going to keep driving and doing our part. We just joined the Hydrogen Council, and we want to be an active voice and an active advocate and really help to push the development in those areas.

In terms of a percentage of the total contribution, we probably don't have enough time to get into all the dynamics of it. The question is, do you look at LNG as a very critical energy transition fuel, we certainly do. It certainly has a significant impact and the ability to be able to make it a fungible commodity through LNG. If you include LNG, it's a large percentage. If you exclude all hydrocarbon and just look at the pure renewables, it's a smaller portion of the company today, but we're pivoting strongly in this direction and securing -- to secure our future as well.

Waqar Mustafa Syed - *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

If I can, maybe just one last question. The digital technology or digitization of the -- in the Technip Energies solution business. That's something that you talked about last year. Where are you in the progression in that -- introducing those ideas into that business segment?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. So we're looking at the digitalization of our company across the board, internal processes, external processes. We highlighted the last couple of quarters -- actually introduced last quarter and highlighted a bit more this quarter, Subsea Studio. This is really, really significant. It's going to just drive our differentiation wedge even greater, and we're seeing evidence of that very quickly. It's going to expand beyond the front-end engineering. It will become, if you will, the way Subsea will be developed digitally from the initial front end all the way through the life of the field of the project. So there's a lot more to come on the subject. We'll be continuing to communicate that to you and others as we go forward.

In the area of Surface Technologies, we're moving to a fully digitized system for well completions. That is really, again, quite exciting and has the impact in terms of the natural benefits of things being digital, but it also has a benefit from a greenhouse gas emissions as well. And Catherine, I'll let you conclude today's call by talking a bit about the digital transformation within Technip Energies.

Catherine MacGregor - *TechnipFMC plc - President of Technip Energies*

Thank you very much, Doug. And similarly, in Technip Energies, we are progressing very well in some of the game-changing technologies around digital, particularly on digital twins, particularly on carbon assessment tool, particularly around ultra-front end tool, which allows optimized development and you need to be deployed and designed for our customers. So we have a series of very good and game-changing solutions that we will be looking forward to talking much more in the future. Thank you very much.

Operator

I would now like to turn the call over to Matt Seinsheimer for closing 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 for joining us. Lisa, you may end the call.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
