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CORPORATE PARTICIPANTS

Alf T. Melin *TechnipFMC plc - EVP*

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

Matt Seinsheimer *TechnipFMC plc - VP of IR*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Scott Andrew Gruber *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

PRESENTATION

Operator

Thank you for holding, and welcome everyone to the TechnipFMC Fourth Quarter 2022 Earnings Conference Call. (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 Fourth Quarter 2022 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're 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. Thank you for participating in our fourth quarter earnings call. It is clear that we are in the midst of a multiyear growth cycle as evidenced by the continued growth we experienced across our company in 2022. Inbound orders for the full year grew 20% to $8.1 billion, driven by Subsea inbound of $6.7 billion, which increased 36% versus the prior year. The strength of the inbound resulted in 24% growth in Subsea backlog to $8.1 billion at year-end. And as we will discuss in a moment, we anticipate further growth in 2023.

For the full year, total company revenue grew 5% to $6.7 billion, while adjusted EBITDA improved to $670 million when excluding the impact of foreign exchange, an increase of nearly 20% when compared to the same metric in the prior year. These results demonstrate continued improvement

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in revenue and adjusted EBITDA margin in both operating segments and reflect our strong commitment to deliver on our financial objectives. In 2022, we also materially improved our financial position. We generated free cash flow from continuing operations of $194 million for the year and gross debt was reduced by nearly one-third.

At our Analyst Day in 2021, we announced our intention to begin shareholder distributions in the second half of 2023. Given the significant valuation opportunity we saw in our shares and the steady progress made in reducing our outstanding debt, we accelerated the timeline by a full 12 months with the authorization of a $400 million share buyback program in July. We immediately put the plan in action and repurchased $100 million of our shares by year-end. We also remain committed to a quarterly dividend, which we intend to initiate in the second half of this year.

Looking beyond 2022, we remain confident in the strength of this up cycle and continue to believe that international markets will lead the next leg of expansion. International can largely be defined as offshore and the Middle East, and TechnipFMC is uniquely positioned to take full advantage of this growth. More than 90% of our revenue is generated outside the North America land market, and we have leading positions that are geographically levered to many of these important growth markets.

Focusing first on offshore. Our Subsea opportunities list, which highlights larger projects with the potential for award over the next 24 months, continues to represent a record level of potential project activity amongst an expanding customer base in all major offshore basins. The average project size on this list has grown to nearly $750 million, driven by momentum in large greenfield activity. In addition to these more visible opportunities, we continue to forecast strong tieback activity in major markets, such as the Gulf of Mexico, the North Sea and West Africa, many of which are direct awarded to our company.

We have announced several projects totaling $1 billion for the first quarter, a solid start to the year. These include Aker BP's very first iEPCI project, a direct award for the Utsira High development in Norway. This award further highlights the growing list of clients who are choosing the benefits of our integrated commercial model. We expect to see a material increase in the value of iEPCI awards in 2023, leading to a record year for integrated project awards.

And as our installed base continues to grow, we are forecasting a further increase in Subsea Services activity. When taken together, we expect direct awards, iEPCI and Subsea Services to represent more than 70% of our total inbound in 2023. While the strengthening offshore activity is likely to be our primary driver of revenue growth, we also expect significant investment to continue in land-based resources, particularly in the Middle East. Here, we have a strong market position, and we have expanded our footprint to further leverage our in-country talent in markets such as the United Arab Emirates and the Kingdom of Saudi Arabia.

We have commenced work on our 10-year framework agreement with Abu Dhabi National Oil Company to provide wellheads, trees and associated services. We also completed the expansion of our manufacturing capabilities in Saudi Arabia, which will support our commitment to develop a diverse and capable local workforce as part of Aramco's In-Kingdom Total Value Add program and Saudi Vision 2030. We continue to believe the Middle East represents one of the largest market opportunities this decade.

Let me now discuss how this market view impacts our company outlook for 2023 and beyond. Alf will provide more details in his remarks, but the headlines can best be summarized as follows using the midpoint of our guidance range. In 2023, we expect full year inbound orders for Subsea to exceed $8 billion, an increase of at least 20% versus the prior year. In addition to the strong project pipeline, we see Subsea Services inbound increasing to $1.3 billion.

Moving to revenue, we anticipate total company results of approximately $7.5 billion, an increase of 12% versus the prior year. We anticipate similar top line growth for both segments. However, we expect nearly all of the growth in Surface Technologies to come from international markets, which represented just over half of the segment total in 2022.

Before I turn the call over to Alf to discuss the specific changes, let me first provide context for these material revisions to our prior forecast. One of the primary topics at our Analyst Day in 2021 was the upside potential for Subsea margins. The key drivers we outlined at that time are still in place today; increased operating efficiency, including the transition to the configure-to-order operating model; an inflection in backlog margin; increased utilization of plants and vessels; and a stronger contribution from Subsea Services.

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However, we find ourselves today in a very different market environment, one that reflects a clear focus on energy security. This new environment has also led to a more collaborative approach toward resource development. The strength of our customer relationships, particularly those of our alliance partners, will prove to be of even greater value as the increased volume of work leads to greater project and partner selectivity.

We have also seen greater alignment and contract terms and conditions where customers see the value in working with a technology provider that has demonstrated time and again the ability to deliver projects on time and on budget. The comprehensive capabilities of TechnipFMC are unmatched and well suited for this environment. iEPCI and Subsea 2.0 create differentiation, but more importantly, they create value and greater certainty of outcome. They are also supported by ongoing initiatives, focused on industrialization within our company that will likely result in even greater efficiencies over time.

In summary, we closed 2022 having delivered on many notable achievements. We enter 2023 with a strong market outlook and a further step-up in our targeted financial performance. Our revised 2025 outlook encompasses our most current view. It reflects the improved environment, the value we can bring to the marketplace, and the operational momentum we see within our business. We now expect $25 billion of Subsea inbound through 2025 for our company. And with this, we expect 2025 will demonstrate significant progress on our path to much improved financial returns. Most importantly, 2025 does not mark the endpoint, but rather a major milestone on a more ambitious journey ahead.

I will now turn the call over to Alf.

Alf T. Melin - *TechnipFMC plc - EVP*

Thanks, Doug. Total company inbound orders were $1.8 billion in the quarter. Subsea inbound was $1.5 billion, putting full year orders at $6.7 billion, an increase of 36% versus the prior year. Surface Technologies inbound was $327 million in the period with full year inbound of $1.3 billion. Total company backlog increased 6% sequentially to $9.4 billion. Total company revenue in the quarter was $1.7 billion with adjusted EBITDA of $158 million when excluding a foreign exchange loss of $37 million. The fourth quarter adjusted loss from continuing operations, which excluded after-tax charges of $6 million, was $21 million or $0.05 per share, and it included the foreign exchange loss.

For the quarter, we delivered results that exceeded our expectations for both segments, allowing us to achieve the full year guidance we provided at the beginning of the year. Cash flow from continuing operations was $566 million and capital expenditures were just over $63 million, resulting in free cash flow of $503 million in the quarter. For the full year, free cash flow was $194 million. We ended the quarter with cash and cash equivalents of $1.1 billion. Net debt was $309 million, which was a reduction of $346 million from the third quarter.

Now let me turn to shareholder distributions. In the fourth quarter, we repurchased shares amounting to $50 million, bringing the full year total to $100 million. This means that we have completed 25% of our share repurchase program in just 5 months. We repurchased shares at an average price that is 25% below last night's close. And for the full year, we distributed just over 50% of our free cash flow to shareholders, while still improving our financial strength. As we have demonstrated in 2022, we are fully committed to returning cash to shareholders, and we continue to believe that our shares represent attractive value.

Let me now move to guidance. In his prepared remarks, Doug spoke to the breadth of the market strength and our outlook for further order growth. This is yet another tailwind that we expect will translate into stronger financial results for our company in 2023 and beyond. We have provided detailed guidance for the current fiscal year in our earnings release. I won't speak to each item at this time. However, I will provide context around a few items, including our expectations for Q1 results.

Let me begin with Subsea. At the midpoint of our guidance range, we anticipate revenue of $6.1 billion at a margin of 13%, which results in adjusted EBITDA growth of 26% for the full year. This also assumes continued growth in Subsea Services. As a reminder, in Subsea, the first and fourth quarters of each year typically experience weather-related seasonality that negatively impacts installation and services activity. Conversely, the second and third quarters benefit from a seasonal uplift of vessel-based activity, which drives both revenue and margin higher. In the first quarter, Subsea results should continue to reflect this seasonality with both revenue and margin essentially in line with our Q4 results.

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For Surface Technologies, at the midpoint of our guidance range, we anticipate full year revenue of $1.375 billion at a margin of 13%, resulting in adjusted EBITDA growth of nearly 30% versus the prior year. We anticipate revenue growth will be driven almost entirely by international markets. Our continued ramp-up in activity in Saudi Arabia and the United Arab Emirates over the first half of the year should result in international revenue growth of approximately 20%.

Our North American results will be impacted by actions taken to eliminate underperforming locations and product lines across the region, which we estimate will negatively impact total segment revenue growth by approximately 4 percentage points in 2023. More importantly, we expect these actions will have a favorable impact on profitability.

Looking at the first quarter, we expect total segment revenue to decline by approximately 10% sequentially, with decremental EBITDA margins of approximately 30% versus the fourth quarter. Beyond the segments, we anticipate full year capital expenditures of $250 million, just over 3% of revenue. And finally, we are guiding free cash flow for the year to a range of $225 million to $375 million, the midpoint of which is more than 50% above the prior year, reflecting the improved EBITDA as well as higher conversion of EBITDA to cash.

Now I want to give an update on the intermediate-term financial outlook that we provided at our Analyst Day. Within Subsea, we now see the following for 2025. Inbound orders totaling approximately $25 billion from 2023 through 2025. This would include Subsea Services inbound orders of approximately $1.65 billion in 2025. Revenue of approximately $8 billion and adjusted EBITDA margin of approximately 18%. Additionally, we expect to convert 50% of total company EBITDA into free cash flow in 2025. All other guidance items pertaining to our 2025 outlook and normalized framework previously provided remain unchanged.

When comparing this revised Subsea outlook to our 2022 adjusted results, this would be a 650 basis point expansion in Subsea EBITDA margin in just 3 years and result in Subsea EBITDA of approximately $1.4 billion.

Our current view of financial performance in 2025 also reflects a project mix that will continue to evolve over the next few years. In our earnings call presentation, we have included a chart that outlines the revenue scheduled from our current backlog as a percentage of total expected revenue in both 2023 and 2025. For 2023, we anticipate 64% of revenue will come from our existing backlog. For 2025, that number is closer to 11%. I would also point out that much of this backlog was inbound before the inflection of the current market environment.

The key takeaway messages here is that our EBITDA margin in any one year reflects the layering of projects and services that are inbound over time. As implied by the chart, the 18% EBITDA margin we anticipate for 2025 will still be negatively impacted by legacy project backlog. And even more importantly, we are not suggesting that 18% is the highest margin we can achieve in Subsea. We remain confident that there is upside to this number beyond 2025.

In closing, I will share with you my key takeaways. First, we delivered on our most important financial commitments for the year, notably the profitability targets for Subsea and Surface Technologies as well as total company free cash flow. Second, we have initiated guidance for 2023 that at the midpoint of the range demonstrates a higher level of margin expansion and cash flow conversion than in prior year.

Third, we have accelerated our plans to distribute cash to shareholders. We repurchased $100 million of our shares in 2022, and we intend to continue the buyback program in 2023. We have also reaffirmed our intention to initiate a dividend in the second half of this year.

And finally, we have updated our intermediate term outlook for 2025 to reflect the impact of the current multiyear cycle that is more robust than we had envisioned back in 2021, our leverage to the key drivers of this cycle, offshore and the Middle East markets, and our ability to further improve the economic returns of our company.

Operator, you may now open the line for questions.

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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*

It must be nice to have three years of visibility in your back pocket now. A big change from the fall of '21 when we put out those interim guides. You talked about it a little bit. I was wondering if you could kind of really dig in a little bit more into kind of what drove the expansion of the Subsea margin guide in '25? Is this primarily kind of a function of the higher throughput and the leverage of your modular configured-to-order model? You think you're seeing about 70% of iEPCI awards today are in there, I'm assuming that's also in there.

And then secondarily, I think we just touched on it about the backlog that I think you said 11% of backlog in '25 -- or 11% of revenue in '25 is from backlog today. So is this factoring in pricing on these projects? Or maybe can you just help me understand kind of some of the components behind that, please?

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

Sure, Dave. If we reflect back on how we got here, maybe to start, 6 years ago, we embarked on a journey to make offshore energy development the investment of choice for our clients while fundamentally changing our operating model. We are now experiencing the results of that journey, and that's a combination of a few things. First and foremost is the market adoption of Subsea 2.0. We had previously said that we expected Subsea 2.0 to be approximately 50% of our inbound in 2022 and 2023, and we now see that expanding even further in the coming years.

But keep in mind, not all of that inbound is flowing through the plant today. So if we look at our Subsea 2.0 deliveries, it's a bit less than 25% of what we're actually delivering today which will obviously go towards 50% in the coming years, which gives us great confidence as a result of our ability to be able to shift to the modular build, as you referred to or what we refer to, as the configure-to-order operating model. This model continues to demonstrate significant benefits to our operating efficiency and to our profitability.

And then in addition, is the adoption of iEPCI, as you pointed out, which by the way, is not -- it many times, also include Subsea 2.0. The iEPCI awards continue to increase. We stated that this will be the record year for iEPCI. And we also, when I look at the FEED work, the front-end engineering and design work that we're doing, which sets up the future years, the percent of FEED work that we're doing on iEPCI, which we call iFEED, is at an all-time high. Those iFEED projects lead to a direct award to our company for iEPCI. That is a proprietary opportunity set that is not available to the rest of the market. And I emphasize that that's at the highest level that it's ever been.

So it's a combination of these things, and clearly, the market focus on energy security, that gives us great confidence. But when we look at the 2025 guidance that we just updated today, a material increase from where we are currently of an additional 650 basis points of Subsea margin, it's these factors that we've been working on for half a decade that we're now seeing the benefits from that create sustainable change, and we are not beholden to further pricing improvement to achieve these -- the updated 2025 guidance.

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

So I guess when we look at that visibility on the $25 billion in Subsea orders over the next three years, I was just trying to think about this as kind of the analogy of the last cycle. Maybe something like 2007 or '08 when you had this much visibility on your business. I guess what I'm curious about is when you think about that order book for the next three years, how does that compare to the prior cycle in terms of, say, the customer type, the size of the projects, you just talked about this as iFEED. This didn't exist in 2007, '08. And obviously, there's been a huge industry kind of structure has really changed with Aker coming out of the market and whatnot. Can you just talk about kind of how different that is, what it looks like in the next three years?

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

Dave, we talk about this all the time. As a matter of fact, I was talking to a gentleman, who runs our research, engineering, manufacturing and supply chain organization, just this morning about this. The fundamental change -- and by the way, we've never experienced this before when you point to the prior cycles, both in terms of the volume, the $25 billion, but the visibility, which is to your question.

We have always had a very robust planning cycle, as you would expect us to, to ensure that the projects that we take on are the right projects, we have the right resources so that we can continue to deliver to our clients projects on time and on budget. And I'll point out, even with this significant growth that we've experienced, we've not seen a deterioration in our on-time delivery performance. And that's what makes our customers comfortable to continue to direct award us even more work.

But we've taken that planning horizon, which was always 24 months, it's actually 48 months now, Dave. And what's really fundamentally changed, and I've never seen this in my career, our customers are booking not just the current greenfield project, but the future greenfield project. They want our capacity. They want our 2.0, they want our iEPCI and they trust us to deliver. And in this period of not only focusing on energy security, but also supply and capacity security, they're now booking well in advance greenfield projects, and that visibility we have not had previously.

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

Are these smaller companies then when you think about last cycle? We think about the last cycle is all dominated by the IOCs. Is that starting to shift? Are you seeing -- I think you said before that you had something like 40 different customers in the first half of last year's orders? Are you continuing to see that kind of broadening of that customer base? Sorry for squeezing in one more question there.

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

Sorry, and I'll be brief. Indeed, we've actually seen that unique customer set now to expand to over 50, but the discussion I was having earlier actually applies both to some of the new clients, but also some of the most established largest clients, who are also focused on ensuring that they have the capacity -- secure our capacity for their future projects.

Operator

Arun Jayaram with JPMorgan.

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

Doug, I wanted to maybe follow up on David's line of questioning and really just talk about the longer-term outlook in 2025. Doug, as you know, energy investors have been somewhat skeptical of long-term guidance, but I know you guys have been thoughtful over the years. But I was wondering if you could give us a sense of how the sausage was made in terms of the forecast, just to give us confidence that you can achieve what looks to be a pretty significant upgrade in what you told us versus November of 2021?

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

Sure, Arun. We, I think, have a reputation of being extremely conservative. We also have a reputation of achieving our guidance or exceeding our guidance, particularly when we talk about our view of the market, be it in whatever capacity, our inbound or tree forecast or whatever it may be. And we took the same approach. I mean, the approach clearly hasn't changed.

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What has changed is the visibility to the earlier -- to my response to the earlier question. And it's quite unique, Arun. And so there's not like a big, what we would call, a to-be found when you're doing a forecast, you have named projects, you have your subsea services, you have your call-offs from your alliance partners that you know they're going to do a certain amount of field rejuvenation, which, by the way, is increasing significantly and/or brownfield tiebacks. And then you have a kind of a to-be-found bucket, if you will.

We're not relying on that when we're giving this guidance. This is projects that you see on the Subsea opportunity list or kind of more importantly, for our company, projects you do not see on the Subsea opportunity list, which is that set of proprietary projects where we're doing those integrated FEED studies, which will result in a direct award to our company when they achieve project FID.

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

That's super helpful. My follow-up is just on the cash conversion update where you expect it to increase to, call it, 50%. I was just wondering if you could maybe talk about what is driving that? And just future plans for the free cash flow, I mean you've guided or provided an outlook for $1.4 billion of adjusted EBITDA in 2025. That would push you towards about $700 million of free cash flow. You guys will have, call it, a net debt -- no net debt at the end of this year. So I wanted to get your thoughts on just the future uses of that free cash flow and the drivers of that stronger free cash flow conversion rate.

Alf T. Melin - *TechnipFMC plc - EVP*

Thanks for the question. And maybe let's start with it in a very simple way for 2025. We are clearly going to grow profitability and EBITDA at a higher pace than some of the other factors that goes into the free cash flow statement. And what factors do I talk about? I talk about things like corporate expense, interest expense and even CapEx. All those items are not going to grow at the same pace as our earnings growth. And if you combine that with, call it, a neutral type of working capital outlook in that number, that's kind of how you get to 50% roughly for 2025.

Then if you look ahead at where we are in terms of -- we obviously like our position a lot, as you've heard from the first couple of comments here in the call. But we're, first and foremost, happy with what we have achieved in the past year. We have largely achieved what we set out at Analyst Day to be our target capital structure, which we said was $800 million of cash and $1.3 billion of debt. We reduced debt by over $600 million here in the past year. And this really positioned us for the shareholder distribution acceleration that really we could accomplish through the share buyback program in July.

And as Doug already said, we are committed for the dividend in the second half. Now when you look at our cash position, it's obviously going to continue to be a favorable outlook in the light of this -- in this forecast, but we will also remain committed to maintaining, first of all, a strong balance sheet but at the same time delivering strong shareholder contributions. That's going to continue to be our focus. And in the short term, we would say that we're retaining the flexibility here with our share buyback program, where we really think we have the best opportunity to return value to our shareholders.

Operator

Scott Gruber with Citigroup.

Scott Andrew Gruber - *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

I wanted to stay on the 2025 guidance. And if I just look at what that implies, the return on capital looks to be in the mid-teens, which is certainly solid. But just given the evolution of the industry, the appetite for your integrated model, you should be less of a price taker going forward. I'm just curious, as you step back, and think about the next few years, I'm curious how you think about what a normal return on your portfolio should be just kind of given the evolution of the business?

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

It's a great question, Scott, and welcome to the call. Indeed, mid-teens is in line with what we are looking at, a substantial improvement from where we are today. And again, I really want to emphasize the actions that we're taking in this long journey that we embarked on six years ago was to improve our customers' offshore subsea project returns, while at the same time creating a unique and different operating model for our company that would drive a much improved through-cycle return as well, not just a peak cycle return.

And so what are some of the things that we're doing. We talked about Subsea 2.0 and integrated projects. But if you also look at the level of capital expenditures that we're deploying today in our company are far less than what we would have done on a historical average. That's because of the additional efficiency of Subsea 2.0 as it flows through our plans.

But it's also, we're really good at partnering. We work well with others. That's in the DNA of us as individuals as well as us as a company, be it our clients, be it our suppliers or even being people at time we might compete against and at other times cooperate with. And that's the development of our ecosystem for our fleet.

So it allows us to be able to have access to world-class vessels, many of which are within our own fleet, but those also that are outside of our fleet and have unique capabilities and enhance the overall capabilities of our combined fleet by working with companies like Allseas and Saipem, and we couldn't be more proud of that. We see ourselves as we continue to have the market success. We are willing and ready to partner with others as well as we continue to grow this market together.

So being able to grow it with a much different mentality, which is one around really focusing on the returns and really focusing on sustainable returns through cycle by being disciplined in the investments that we make create the opportunities that Alf just talked about, which is greater shareholder distributions.

Scott Andrew Gruber - *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

Got it. Would it be fair to say you're not satisfied with a mid-teens return? Is that fair?

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

I would just throw that under the same bucket as my closing remarks in my script, which was along the line of, this is only a midpoint on our journey. We have a much more ambitious journey ahead.

Operator

Kurt Hallead with Benchmark.

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

Doug, how are you?

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

Great, Kurt. Good to hear you voice.

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

Yes. Good to be on again. So Doug, you really raised the bar again putting out data points for 2025. Before you know, some people are going to be asking you for your views on 2030. So just get ready for that, okay? So first and foremost, I'm kind of curious here when you kind of talk through what kind of drives or is driving your customer decision-making process, you kind of referenced your delivery and performance as a key element. You mentioned energy security.

But when you look at those factors and maybe even drive in the cost element, how have those conversations with the customer evolved? And how do you -- which one of those three -- how would you rank how your customers are valuing those three components, right, between delivery, energy security and continuing to kind of take down the cost of developing these offshore fields? And how has that changed, I think, over the last couple of years?

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

I would say the first two are obviously dependent upon each other. But if I had to put them in an order, I would say energy security and then supplier security or supplying capacity -- securing capacity. They're somewhat interchangeable. In some conversations, it actually starts with securing our capacity, but it's obviously fundamentally underscored by energy security.

And then it really comes down to certainty and execution and confidence because our customers are putting great trust in our company, a significant amount of their capital spend, with arguably some of the most complex and complicated work that they do to ensure that the world has a reliable and affordable energy supply. So we start by just being really humbled by that. And it's phenomenal to be in this position.

And then when you go into a direct award discussion, which is not the normal mode of operation for many of our customers, and in some cases, we've been in that situation for now almost approaching three decades with individual companies. It's just an honor and we remain humble. Our success is our client success. Our success is the project's success and that's what we stay focused on.

And I think as long as we do that and we can continue to deliver simplification, standardization and industrialization around what we do, you have to be the leading technology provider. You have to have the proven track record in terms of delivery, and you have to have trust built upon deep intimate relationships. And that's what we do, and it's unique to our company, and I couldn't be more proud to be part of it.

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

Okay. Great. Appreciate that color. So obviously, a lot of attention well spent on the Subsea part of the business. So I'm kind of curious on the Surface, right? You mentioned international to be about 50% or was 50% of your revenue in 2022. And you're going to see the bulk of your growth coming from Middle East going forward. So maybe you extrapolate that. These are long-term projects with these customers who have had long-term investment horizons. Where do you think the international mix could be come 2025?

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

Kurt, are you asking the international mix as a portion of the total Surface Technologies?

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

Yes, yes.

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

Okay. Look, it's going to grow, and it could grow materially. We don't see the North America market growing much over that period, certainly not in the short term. It's hard to have a long-term view of the North America market. But clearly, in the short term, our view is with the consensus, which is rig activity is likely to decline, completions activity maybe grow but grow modestly. So we're not expecting much growth.

As I mentioned in my prepared remarks, although we expect Surface to grow in line with Subsea in terms of revenue growth year-over-year, all of that growth will come from the international part of the business, not from the North America land part of the business for our Surface Technologies group.

Kurt, to maybe personalize it a little bit and demonstrate where our focus is, I spent last week in the Middle East. I had the pleasure meeting with our key customer, Aramco, and spending time in the Kingdom and observing the investment and the results of the investment that we've made in increasing our manufacturing capabilities and local content in country. This is the path forward. We fully support that, and we're very, very excited about the opportunities for our business in the Middle East.

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

I appreciate that color. Maybe if I could sneak in one more on the shareholder return. How do you guys think about the split between, say, dividends and share repurchase as you're kind of setting that strategy for the second half of this year?

Alf T. Melin - *TechnipFMC plc - EVP*

No. Kind of maybe as I alluded to, really near term, we are seeing still the opportunity. As we said in our prepared remarks, we think our shares are still a valuable capital allocation to pursue. So definitely, the share buyback program is giving us the most near-term flexibility to really execute on. And at the same time, we remain committed to the second half dividend as we talked about, but I don't see us accelerating that, but rather staying with the current setup with the share buyback program.

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

Okay. I think my question was like, are you going to think 50% of your free cash of that where you're going to allocate to the share return is going to go to dividend, the other 50% to share repo? I was just kind of curious about how you're thinking about the mix.

Alf T. Melin - *TechnipFMC plc - EVP*

I think we don't have a specific decision for the year on that yet. But clearly, this is a priority for us to get this right, and we are continuing to manage the balancing between maintaining our strong balance sheet, but yet being very focused on generating or driving shareholder returns.

Operator

(Operator Instructions) Marc Bianchi with Cowen.

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

I guess one thing that some people have asked is around this order outlook that you have. Certainly, you have a lot of visibility into what customers are asking you for. But are there other bottlenecks in the industry that are worth monitoring, for instance, maybe topside assets availability on things like that, that would need to happen in coincidence with what you're providing?

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

Marc, thanks for the question. Absolutely, it's something we focus on constantly. As I mentioned, I was in a conversation with our manufacturing head this morning. Look, it would be naive to say that there aren't supply chain risks, there aren't execution risks. But this is what we do. We do it really well, but we do it differently than we have done it historically.

And in the past, when you saw the industry, and I'm going to speak broadly of the industry, and I'm going to say we were absolutely part of that. When you saw projects being delivered 12 months late, projects being delivered 100% over the budgetary cost, it was a result of the bespoke manufacturing mode that we were in. We are the only company that seven years ago started developing a new product architecture that we now call Subsea 2.0 and is now, as I said, up to 50% of our orders.

This allows us to go to this configure-to-order model. It also allows us to be much more synchronized with our supply chain. So much like our customers that I talked about earlier, we treat our suppliers the exact same way. They treat us as partners, in many cases direct award partners, in many cases exclusive partners. We do the same with our supply chain. So we have that same intimacy with the supply chain. And with the configure to order, they don't have to wait on an engineering drawing. In the past, every single part and if you're not -- if you don't have Subsea 2.0, it's still that way today. Every single part comes with a set of engineering drawings.

Can you just imagine the disruption that that causes not only for your own manufacturing but for the supply of parts and machine -- part of your raw materials and/or rough machine parts to your manufacturing. So it's a trickle-down effect. It works extremely well where we now have suppliers who know they can trust us. They know we're the market leader. They know we have the capacity.

We have the forward planning now. As I said, we extended it from 24 months to 48 months with orders that we can actually give them that visibility, and they don't have to wait on an engineering drawing. In some cases, they on their own are now machining and stocking parts on our behalf because it's beneficial to them from a flow and a cadence, and it's obviously hugely beneficial to us from a working capital and from an accelerated on-time delivery.

So this configure-to-order model has fundamentally changed our company. We couldn't have done it without the foresight and the tenacity to develop the 2.0 product architecture, but we're just beginning to see to really reap the benefits of it today. As I said, the majority of our tree deliveries are not Subsea 2.0 flowing through the plant today, but that will ramp up over the coming years.

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

Okay. Great. I guess the second one I had is more for Alf but just on first quarter, if you could help us a little bit with free cash. And then as we think about the progression of results for the balance of the year, just so that maybe we don't get over our skis on the rate of improvement in second quarter. It'd be great to just hear whatever steer you're able to share about how things play out beyond first quarter?

Alf T. Melin - *TechnipFMC plc - EVP*

Sure. Absolutely, we'll do so. So if you just start with the fourth quarter, we obviously had a very strong free cash flow generation in the fourth quarter, as we had advertised and as we had planned. But still over half a billion dollars is a big cash flow quarter for us. Now having said that, as you may know, and if you have followed us, we're going to follow a very similar pattern to our cash flow generation, as we did in both 2021 and 2022, but in particularly in '22 where we start the year with the first quarter of being a very weak start to the free cash flow generation. And just to pencil in something you can probably look at last year's results and say that it's going to be in that neighborhood probably.

So that's just the normal seasonal profile that we have, and it's largely tied into the achievement of milestones and customer billings and collections associated with our Subsea business, and some of the seasonality that we mentioned around the Subsea business, which then brings me to maybe the revenue and the EBITDA evolution for the quarters.

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Subsea very much will be, as we said, an in line with fourth quarter type of quarter because we are in a seasonal low season right now as we sit here today. While we will definitely see a margin pickup and a revenue pickup in the second quarter, and the third quarter should also be very strong, a little bit of a tail off in the fourth quarter, but maybe not going all the way back to first quarter levels, but -- so that's really what I see in the Subsea.

I think Surface is a little bit of a different story where we have a little bit of a lower activity this quarter after a very strong revenue quarter here in the fourth quarter. But we will see an uptick both in revenue and EBITDA. The margin contribution will improve as we go forward in the quarters. And as Doug kind of said about it overall, it will be driven by Middle East and our ability to convert more and more orders, both with Aramco in Saudi Arabia and with ADNOC in Abu Dhabi.

But overall, call it, a more gradual approach to how it works for Surface rather than to say that there will be a huge step up in Q2 and then keep stepping up from there, but rather a little bit more gradual.

Operator

I will now turn the call back over to Mr. Seinsheimer for closing remarks.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

This concludes our fourth quarter conference call. A replay of the call will be available on our website beginning at approximately 8 p.m. Greenwich Mean Time today. If you have any further questions, please feel to contact the Investor Relations team. Thanks for joining us. Jack, you may now end the call.

Operator

This concludes today's call. You may now disconnect.

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