REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FTI.N - Q2 2021 TechnipFMC PLC Earnings Call

EVENT DATE/TIME: JULY 22, 2021 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

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

Matt Seinsheimer *TechnipFMC plc - VP of IR*

CONFERENCE CALL PARTICIPANTS

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

Bertrand Hodee *Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research*

Ian MacPherson *Piper Sandler & Co., Research Division - Senior Research Analyst*

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

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

Nikolaos Konstantakis *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Vaibhav D. Vaishnav *Coker Palmer Institutional, Research Division - Oilfield Services and Energy Transition 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

Good day, and thank you for standing by. Welcome to the TechnipFMC Second Quarter 2021 Earnings Conference. (Operator Instructions)

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

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Good morning and good afternoon, and welcome to TechnipFMC's Second Quarter 2021 Earnings Conference Call. Our news release and financial statements issued yesterday can be found on our website. I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements.

Known material factors that could cause our actual results to differ from our projected results are described in our most recent 10-K, most recent 10-Q and other periodic filings with the U.S. Securities and Exchange Commission and the French AMF. 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 Executive Officer.

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

Thank you, Matt. Good afternoon. Thank you all for participating in today's call. Joining me today is Alf Melin, our Chief Financial Officer. Second quarter results reflect another strong quarter for our company. Total company revenue improved sequentially to $1.7 billion. Adjusted EBITDA for the quarter was $144 million, with both Subsea and Surface Technologies reporting and adjusted EBITDA margin of 11%. Total company inbound orders were $1.6 billion. In Subsea, we demonstrated our ability to continue winning with inbound totaling $1.3 billion for the quarter.

The strength in the first half of the year has been indicative of the continued market progression we outlined last year. This includes 10 announced awards, 50% of which will be executed as integrated or iEPCI projects. The strong start to 2021 is clear evidence of our leadership position and is highlighted by significant milestones achieved in the second quarter. These include the addition of 2 new iEPCI clients, Karoon, where we will execute our first iEPCI in Brazil for the Patola field, and Tullow, where we utilized our Subsea Studio digital solution to optimize field layout for the Jubilee development in Ghana.

Also in the quarter, we announced an award from Equinor for the Kristin Sør Field, where we leveraged our early engagement capabilities and will utilize the Deep Arctic, which is equipped with a hybrid battery solution that reduces greenhouse gas emissions. And an award from Petrobras for the supply of production equipment, installation services and intervention support for field 6 through 9 of the Buzios project.

With the development of new energy solutions, we are still -- while the development of new energy solutions are still in their infancy, our fundamental belief is that clean energy will be increasingly sourced and stored offshore given the anticipated volume and scale required to meet future energy demand.

As the Subsea architect, we are building partnerships in support of new energy, leveraging our differentiated technologies and capitalizing on subsea expertise and integrated project execution. Our 4 pillars are not mutually exclusive. And yet it is not clear which single pillar or combination will prove to be the market's preferred choice in the energy transition. Regardless, TechnipFMC is well positioned to play a material and successful role in their development, driven by our core competencies, collaboration, innovation and integration. I will now turn the call over to Alf to discuss our financial results and to provide an update to our full year financial guidance.

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

Thank you, Doug. We had another solid quarter as total company inbound orders were $1.6 billion. Revenue in the quarter was $1.7 billion with adjusted EBITDA of $144 million. Total company backlog increased sequentially to $7.3 billion at the end of the period. Backlog for Subsea stands at $7 billion, of which close to $5 billion is scheduled for execution beyond 2021. We ended the quarter with cash and cash equivalents of $855 million and net debt of $1.6 billion.

During the quarter, we recognized a loss of $147 million related to our equity ownership in Technip Energies. This primarily relates to the change in market value during the period. Loss per share from continuing operations was $0.39 per diluted share in the quarter, when excluding the impact of the change in fair market value of our Technip Energies stake and other charges that netted to an after-tax charge of $0.33. The adjusted loss from continuing operations per share was $0.06. We also reported income from discontinued operations of $0.02 in the quarter. The income is due to a tax benefit related to the spin-off of Technip Energies.

Now let me turn to the segment results. I will focus on our sequential performance comparing the second quarter to our first quarter results. In Subsea, revenue of $1.4 billion was unchanged when compared to the first quarter with a seasonal improvement in installation and services, largely offset by lower project activity in the period. Subsea adjusted EBITDA margin of 11.1% improved sequentially by 140 basis points, benefiting from higher margins in backlog and increased installation and services activity. Inbound orders were $1.3 billion in the period, demonstrating a second consecutive quarter of order strength.

In Surface Technologies, second quarter revenue of $275 million increased 12% from the first quarter. The increase was primarily driven by higher activity in North America, increased international services and strong project execution. The segment also benefited from further adoption of the iComplete ecosystem. Adjusted EBITDA margin of 11% was unchanged from the first quarter. Inbound orders for the quarter were $268 million, an increase of 32% sequentially, driven by strength in the Middle East, the North Sea and North America.

Turning to corporate and other items in the period. Our corporate expense was $30 million. We incurred an $11 million loss on foreign exchange and tax expense totaled $35 million.

Moving to cash flow. Cash required by activities from continuing operations was $86 million in the period. Capital expenditures were $40 million. This resulted in a free cash flow consumption of to $126 million in the second quarter. Importantly, the Q2 outflows were expected, and we remain on track to meet our full year free cash flow guidance of $120 million to $220 million, with subsequent quarters to benefit from strong working capital inflows.

More specifically, these Q2 outflows included the scheduled and concluding payment of $53 million related to our previous settlement with the DOJ and Brazilian authorities, primarily related to legacy activities where we no longer participate and that occurred over a decade ago, as well as typical quarterly variation in working capital resulting from our predominantly projects-based business. CapEx for the second half of the year will include spending related to previously announced project awards, and we do see potential for full year expenditures to come in below our guidance of approximately $250 million.

Other items favorably impacting our net debt in the period included a net inflow of $258 million related to the sale transactions of a portion of our ownership stake in Technip Energies. Proceeds from assets totaling $84 million, including a further rationalization of our fleet with the sale of the G1200 vessel. And the full repayment of the $200 million outstanding balance on our revolving credit facility. Taken together, net debt was reduced by $155 million to $1.6 billion when compared to the first quarter.

Before I discuss the changes made to our expectations, let me first share with you how we intend to communicate our guidance and updates with you in the future. As most of you know, we do not give quarterly guidance. In keeping with historical practice, we will continue to give our initial guidance for the upcoming year with our fourth quarter earnings release. Moving forward, we will also provide a midyear update to this guidance with our second quarter financial results. We believe that this modified approach will provided you with greater transparency and clarity of our projected results as we progress through each calendar year. Turning to the midyear updates to our 2021 financial guidance. As a reminder, guidance is based on continuing operations and thus excludes the impact of Technip Energies, which is reported as discontinued operations.

Our full year guidance for Subsea revenue has been increased to a range of $5.2 billion to $5.5 billion. Our full year guidance for adjusted EBITDA for Surface Technologies has been increased to a range of 10% to 12%. Net interest expense has been increased to a range of $135 million to $140 million for the full year, and our reported tax provision has been revised higher to a range of $85 million to $95 million.

I will close by highlighting a few key takeaways. Our updated guidance capturing the strength of the first half and further refines our view of the second half. Free cash flow for the first half year was slightly positive, and we remain on track to meet our full year commitment of $120 million to

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

So a few contracts announced on Brazil. Brazil has been kind of one of the few areas where we're starting to see some signs of life there recently. I was just wondering if you could just kind of bring us up to speed on the contract situation now with Petrobras around Subsea trees. If I'm not mistaken, there was -- you were kind of working down a pretty big contract. Is that still the case? Are you expecting to see any tenders soon? And I guess, also sort of the same question on the flexible pipe would you be expected to see tenders announced with development, it looks like it's starting to pick up down there?

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

Yes. Thank you, David. It gives me a great opportunity to let you know that we had a celebration this past quarter in Brazil, where we delivered our the knowledge, the know-how and the differentiation. The activities picked up. We -- in the prepared remarks, I mentioned that we had a 50% increase in inbound activity, and we expect another strong Q3 for Middle East awards that are materializing this quarter.

Operator

Next question comes from Arun Jayaram of JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst* going through was going to have a dramatic impact, and we've seen that in terms of those companies that came out strong and several who did not come out at all. So we've been working from the beginning being very open and transparent with our suppliers trying to understand what were their concerns.

I'm really proud of our supply chain and procurement team. They were ahead of it. We have a reputation in the industry of being very collaborative, being very transparent and being easy to work with. So we sat with our suppliers just as we do with our clients, but in this case, understanding bit of a color on what's been happening with these risers at Mero and what are the mitigations and what you're doing basically to mitigate the issue if that is an issue?

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

Sure. So I guess I'll take them in the order that you asked the questions. Just if you could clarify, you said there was-- somebody provided guidance that in the near term or midterm? Did not it return to....

Nikolaos Konstantakis - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

I think it's a midterm basically, yes. It would be hard to sustain the same level of the 2019 number of trees average.

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

Clearly, that's not how we see the Subsea market, not sure of the analysis, but we talk a lot -- as you mentioned earlier, that our success in creating

So again, it's known, it's well under control. We are actually sharing our learning with others because others will -- are or will be faced with the same challenge. But ultimately, this is about engineering out the problem moving from rigid risers back to flexible risers, which will be done -- which ago, when it was not at all I guess, viewed by most that we would be entering into this type of an environment. That's because of, again, the proprietary access, the information that we have, the relationships that we have with our clients gave us that confidence to provide that outlook over a year ago.

When we look at what's out there right now, the consensus number on inbound is more in that $4.5 billion to $4.7 billion range. We're getting into that tricky part of the year, Ian, where are orders going to happen on December 31? Or are they going to happen on January 3? And I don't mean that sarcastically, we actually see that quite often, where, in some cases, clients will want to accelerate spend into the current year, perhaps for budgetary reasons, and in other cases, they want to defer the investment decision until the beginning of the following year. I don't have a clear line of sight on that. The team is working on that right now. We're really trying to sit down and understand from our clients kind of what is the most likely outcome. But clearly, with the timing of some of those awards coming into the fourth quarter, we would anticipate our inbound to be trending much closer to the consensus number that's out there than the greater than $4 billion we are today.

Operator

Next question is from Mark Bianchi of Cowen.

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

Perhaps continuing with the scenario discussion. If I look at the Subsea opportunities going up 20%. I know those are awards that are going to backlog and take years to convert. But it is an indication that things are looking better, right? I would think that maybe services has some better momentum now and also maybe some of your book in turn. So I was a bit surprised that the revenue guide for Subsea didn't really increase a lot. I think things if you hold things flat from the first half, you kind of hit the high end of guidance and you're down 13% to hit the low end of guidance. So that would seem like a pretty conservative outlook there. Maybe talk to us about how you built that guidance up, what scenario would need to happen to get to the low end and maybe thoughts on upside?

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

Yes. Look, I don't want to spend too much time on the subject, not that it's not critically important. But no, we're not trying to -- there's no hidden message here. Keep in mind a couple of things. As you pointed out, there's very little book and turn in our Subsea business. That's the advantage. I mean you can already start to look at how much backlog we have for next year and beyond as we provide the backlog scheduling, which gives a lot of confidence, and that's the benefit of having this business as a primary business in the portfolio.

So there's not a lot of opportunity to really ramp. You can ramp inbound, but you don't get a lot of that in the current year, you get some, but you don't get very much of that converted in the current year. In addition to that, keep in mind, the Q4 seasonality, it occurs every year, and we would expect to have some Q4 seasonality this year as well.

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

Okay. The next question is a bit 2 part and it relates to CapEx. So in the prepared remarks you talked about potential for maybe the full year to be below the $250 [million] (added by the company after the call) guide. I'm curious if you could help us with some more color around that? And then thinking about '22 and beyond. Previously, I think you said sort of that $250 million level is the right number. Is it possible that we could be tracking below that? And then as you start building out this new energy capability, how does the capital intensity change, if at all?

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

Sure. So I'm going to pass it to Alf and he'll share with you kind of where we are on CapEx and what we see happening in the second half of the year because it's actually quite exciting. And then he'll talk about kind of the beyond. You were asking about also the capital intensity of the new energies. Did I hear that correctly? Was that the last question?

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

Sure. Thank you very much for the questions. Regarding the SURF awards in Brazil, yes, on the opportunity list, it's projects that are likely to be sanctioned in the next 24 months. So no, not all of those would be awarded, but we would not be surprised to see a SURF award or potentially 2 SURF awards in Brazil between now and the end of the year. Obviously, that's up to our client to decide the exact timing of the award, but just looking at where we are in the tendering phases of some of those projects, it would not be a surprise.

Regarding HFP qualification, this is really important and kind of confidential to Petrobras. So I don't want to say anything out of context. Other than to say, we are very pleased with the progress that we are making around the HFP qualification and Petrobras, working hand-in-hand with Petrobras every step of the way. And we are quite advanced and they are very pleased with where we are in the process, but I need to stop there because the rest is really Petrobras has asked us to maintain the confidentiality of the actual schedule.

Operator

Next question is from Waqar Syed of 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*

Yes. I believe that was my name. Just Doug, a question on -- The surface inbound orders, you gave some year-over-year comparisons for North American/ International growth comparisons. Could you provide some context on sequential growth that you saw in inbounds for surface business in North America and international?

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

Sure, Waqar. I don't have the exact numbers in front of me, but the -- there was a rather material increase sequentially Q1 to Q2 and our international orders, and I would say, much less pronounced in the North America orders from Q1 to Q2. But clearly, Q2 was a strong order level for Subsea International. And also, just bear in mind, when we talk about inbound and when we talk about backlog, it's almost exclusively in our international business. Almost everything we do in the North America business falls under book in turn.

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

Okay. And then the momentum that you've seen in second quarter in terms of sequential growth, do you see the same kind of momentum carry on into the second half as well?

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

For International, we expect continued progression into the third quarter. Most of the orders typically come in, in Q3 and Q4. There's a couple of geographies, particularly in North Africa that tend to do large year-end orders based upon inventory levels. Too early to comment on those, but we would expect incremental Middle East orders in Q3 versus Q2. And again, in terms of North America, we see somewhat of a -- we're forecasting at least somewhat of a steady progression. But the North America market always remains the most cyclical and the most difficult to forecast and a very small portion of our business.

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

Okay. Just one final question to the extent that you can -- you're able to answer. For next year, given your outlook of this revenue opportunity of about $17 billion of opportunity set. Do you see the book to bill for next year in Subsea to be well above 1?

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

So I'm excited to say the book-to-bill this year is 1 year-to-date. So that's important to note. I probably should have emphasized that earlier on in the discussion, just to make sure that that's recognized, and I think we're in a unique position in that scenario. Do I see the book-to-bill improving in 2022 versus 2021? The answer would be yes.

Operator

And our last question will come from the line of Vaibhav Vaishnav from Coker & Palmer.

Vaibhav D. Vaishnav - *Coker Palmer Institutional, Research Division - Oilfield Services and Energy Transition Analyst*

Maybe can you speak about how should we think about longer-term free cash flow from business?

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

Sure. I think Alf will take that question.

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

You asked about the longer-term cash flow?

Vaibhav D. Vaishnav - *Coker Palmer Institutional, Research Division - Oilfield Services and Energy Transition Analyst*

Yes.

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

Yes. So obviously, let me just start. We obviously had a somewhat soft quarter this quarter. It's not representative of what would typically happen in a quarter. And as I mentioned in my remarks, we have some variability from quarter-to-quarter due to the Subsea projects business that we're carrying. I also commented on a specific item in Brazil. But if you take it to the longer term, clearly, I do not see 2021 as being reflective of the long-term free cash flow performance that we envisioned. I think there are a couple of things that we would definitely need to manage differently and its first interest expense is an obvious item where we are committed to debt reduction. That has been part of what we've been saying all along, and we expect that to help reduce the interest expense as we go forward. I think we also have some room to significantly optimize our tax position and get a better ratio of tax expense relative to cash flow overall.

And then lastly, of course, I mean we have been talking in this review here-- a lot about the prospects for Subsea in particular, and the upturn that we're seeing. So we clearly are expecting to see a growing EBITDA profitability profile and continue to convert a larger portion of that into cash as we go forward.

Vaibhav D. Vaishnav - *Coker Palmer Institutional, Research Division - Oilfield Services and Energy Transition Analyst*

So I guess like maybe if there's a way you can help us think about longer-term free cash flow margins. Can we go back to what we saw in 2013-2014 levels or how should we think about that?

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

I wouldn't go back to 2013 and '14, we were a little bit different business also at that time. So overall, I wouldn't comment on any specific ratios at this time. We will come back with more information on this also as we get into our Investor Day that happens in November. And we will definitely cash flow and other relative to net debt structures, et cetera, will be a topic at that time.

Vaibhav D. Vaishnav - *Coker Palmer Institutional, Research Division - Oilfield Services and Energy Transition Analyst*

And maybe if I can squeeze in one last question. Just when we think about $250 million of CapEx. Can you help us think about like is it more driven by Subsea services? Because I'm -- maybe I'm naive thinking that the Subsea trees business wouldn't require that much CapEx. So is it more driven by the Subsea services?

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

Combination of subsea services and the fleet.

Operator

Thank you. I would now like to turn the call back to Matt Seinsheimer for any closing remarks. Please go ahead.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you. This concludes our second quarter conference call. A replay of the call will be available on our website beginning at approximately 8 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

This concludes today's conference call. Thank you for participating. You may now disconnect.
