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EDITED TRANSCRIPT

FTI.N - Q3 2022 TechnipFMC PLC Earnings Call

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CORPORATE PARTICIPANTS

Alf T. Melin *TechnipFMC plc - EVP*

flexible pipe in a new configuration to further secure the production of the field. This award highlights the diversity of work scope and customer opportunity in the region.

We also received a contract from Shell for the Jackdaw Development. The project will use our pipe-in-pipe technology for the tieback from the new Jackdaw platform to Shell's existing Shearwater Hub, supplying much-needed gas to the region. Additionally, we received an award for the ExxonMobil Gas to Energy project in Guyana, which will be included in future inbound once the project receives FID and government approvals. This project will enable Guyana to shift a portion of its power generation to cleaner natural gas sourced from nearby offshore fields.

Beyond our announced awards, inbound orders in the quarter reflected strong tieback activity in the Gulf of Mexico, the North Sea and West Africa. During the quarter, we also renewed our technology alliance with Halliburton, where we have demonstrated strong collaboration since the creation of TechnipFMC in 2017. The alliance accelerates the development and commercialization of new technologies that deliver integrated production solutions that span Subsea and subsurface applications. An example of this is a digital technology, Odassea Subsea Fiber Optic Solution, which we first introduced in 2020 and has already been deployed in key Subsea developments.

The alliance continues to develop innovative and disruptive technologies that can be used in all electric subsea field development, subsea well intervention and carbon capture and storage.

Now looking ahead, we are confident that offshore will provide significant volumes of oil and gas with attractive returns that in many cases are amongst the most compelling opportunities available to our customers. Project economics have improved, driven by lower cost and accelerated time to first oil, providing solid support for continued development activity. This is supported by the fact that approximately 90% of estimated subsea capital expenditures through 2025 are based on break evens of less than $40 a barrel.

Our Subsea opportunity list remains at a record level. This strong project pipeline and the active dialogue with our large and expanded customer base give us continued confidence that our full-year Subsea orders will be up as much as 40% versus the prior year, with orders approaching $7 billion in 2022. And if we extend the outlook into 2023, we believe orders over the next 5 quarters will be at least $9 billion.

Moving to Surface Technologies, inbound was strong at $449 million, representing a book-to-bill of 1.4. Importantly, inbound activity in the period benefited from the acceleration of orders from Aramco, a significant portion of which will result in revenue in future periods. The resulting growth in backlog also provides us with increased visibility for continued growth in our international revenue in 2023.

Investment in oil and gas resources will continue, and we are confident that offshore and Subsea will be critical enablers for energy transition. Opportunities in greenhouse gas removal, hydrogen and floating offshore renewables, including wind, wave and tidal energy are accelerating.

We have made several announcements regarding strategic agreements and partnerships, and we have already achieved notable commercial wins. We have secured two tidal energy contracts in the U.K. through our partnership with Orbital Marine Power. The multi-turbine projects will be capable of delivering 7.2 megawatts of predictable tidal energy, positioning us as the leader in floating tidal energy, and we have signed the option to lease agreement for the ScotWind N3 area through our partnership, Magnora Offshore Wind. The project scope would include the installation of 33 floating wind turbines, which when combined, can provide enough energy to power more than 600,000 homes in the United Kingdom.

Our growing presence in commercial wins in these particular offshore renewable markets are creating new opportunities across an expanding list of potential partners and geographies. We are confident that as the energy transition accelerates, so too will the opportunity set for our company.

In summary, we remain focused on meeting our commitments in 2022. And looking beyond the current year, we continue to see the potential for strong growth in EBITDA, cash flow and returns as evidenced by our stated objective to achieve more than $1 billion of Subsea EBITDA by 2025. Further demonstrating our confidence in this outlook, we announced a new $400 million share buyback program in July, which we quickly put into action with the repurchase of $50 million of our shares in the quarter.

We have also reaffirmed our commitment to a dividend, which we intend to initiate in the second half of 2023. This outlook is enabled by the fundamental changes we have made to our company and the continued strength in the markets we serve. The next leg of growth in oil and gas

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will be fueled by offshore and the Middle East. The bold steps we took five years ago to create TechnipFMC have resulted in a pure-play technology company that is uniquely levered to both of these markets.

Our portfolio of innovative products, solutions and disruptive commercial models has further strengthened our leadership position, and we are now taking full advantage of the market growth that lies ahead. I will now turn the call over to Alf.

Alf T. Melin - *TechnipFMC plc - EVP*

Thanks, Doug. Total company inbound orders were $1.9 billion in the quarter. with Subsea inbound of $1.4 billion and Surface Technologies of $449 million. Total company backlog decreased 2% sequentially to $8.8 billion due to a foreign exchange impact of just over $300 million in the period. Revenue in the quarter was $1.7 billion. Adjusted EBITDA was $200 million when excluding a foreign exchange loss of $14.5 million. Third quarter income from continuing operations was $5 million, which included after-tax charges and credits that netted to an expense of $8 million. When excluding the impact of charges and credits, our adjusted income from continuing operations was $13 million or $0.03 per share.

Now turning to segment results. In Subsea, revenue of $1.4 billion benefited from higher project installation activity in Brazil and Guyana, which was offset by the negative impact of foreign exchange. Adjusted EBITDA was $184 million, an increase of 4% sequentially. Results benefited from improved margins in backlog and increased installation activity. Adjusted EBITDA margin was 13%, up 60 basis points versus the second quarter.

In Surface Technologies, revenue was $318 million, up 5% from the second quarter. We experienced revenue growth globally with particular strength in the Middle East. Adjusted EBITDA was $41 million, a 26% increase sequentially. The increase was primarily due to higher international activity, including the progressive ramp-up in Middle East volume and timing of associated costs. Adjusted EBITDA margin was 12.8% up 210 basis points versus the second quarter.

Turning to corporate and other items in the period. Corporate expense was $25 million, net interest expense was $31 million, and tax expense was $43 million. Cash flow from continuing operations was $212 million. Capital expenditures were $31 million. This resulted in free cash flow of $181 million in the third quarter. We ended the quarter with cash and cash equivalents of $712 million. Net debt was $655 million, which was a reduction of $135 million from the second quarter.

In July, we announced our intention to begin shareholder distributions with an authorization to repurchase up to $400 million of our common stock, which at the time represented 14% of the company's outstanding shares. In the third quarter, we repurchased 5.8 million shares amounting to $50 million. We reh ased 5.8 million8,9 Twinse of $reent resus of Its.ributions s0 Tw1 0bf1lob an ex0.17g attractive valuation. And third, we remain focused on improving our financial returns. Based on the outlook we have provided today, we see the potential for a 25% increase in EBITDA in 2023 when compared to the midpoint of our updated guidance for the current year.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Dave Anderson with Barclays.

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

Doug, so at your Analyst Day last year, you laid out a number of medium-term targets, including margins for 2025. A lot has changed in the last year. So I guess my question is, have the assumptions around those targets also changed in terms of, say, expected volumes and price? Maybe this is already in those targets, but I'm just wondering if maybe we should now be thinking something higher than the 15% EBITDA margins in Subsea by 2025?

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

Dave, thank you very much for the question. Indeed, the assumptions have evolved in a very favorable way since what is now almost 1 year ago at our Analyst Day in November of 2021. At that point, there were a few things. Obviously, the commodity price, but also the focus on energy security and the need to accelerate the development of energy sources, all energy sources, but in the immediate term. And that's what we're really seeing in the marketplace today.

With that, indeed, there is a pricing element that then evolves as a result of that. So our -- when we gave the 15% guidance at the time, we were at 10.5% margin for Subsea going to 15% margin. We had revenues growing to $7 billion. We had inbound coming in at $8 billion. As you heard in my prepared remarks, the inbound has certainly accelerated. Inbound then translates into revenue, which translates into EBITDA. So it is reasonable to assume that the 15% guidance for 2025 could be achieved earlier. And I also emphasize it's reasonable to assume that the 15% margin, it is no way an indication that, that is the upper end of our potential for our Subsea business.

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

Right. You're obviously well above 15% kind of life cycle and even just a couple of years ago, so I would imagine you should definitely be able to some larger, longer-term projects, but obviously benefiting from supporting those with the smaller, shorter cycle projects as well. If you look at really what's transpired over 2022, you can see that those smaller projects are really becoming a significant portion of our inbound. And historically, I would say it almost double the historical rates for that matter. And you saw it again this quarter. We only had 2 announced awards, neither of

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

I guess a quick follow-up on some of the discussion around kind of the unannounced orders. Obviously, it was pretty strong this quarter. It looks like it was kind of in the billion dollar range. And the last time you kind of hit that was kind of pre-COVID and you kind of did that in the back half of '19. But I guess maybe kind of a couple of questions. I guess, first, could you talk about the mix of that kind of billion of orders this year between kind smaller SPS and vessel-based and some other stuff? I know that you announced the tidal energy stuff. So I'm not sure how material that was.

And then could you just talk to kind of how sustainable this billion dollar level is of unannounced orders and if that's kind of the new run rate? And if it's not, then like how should we think about the run rate of unannounced orders over the next 12 to 24 months?

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

Thanks, Chase. Always a little more difficult to forecast the unannounced awards because they are -- sometimes they come at us in very short order time frame versus obviously the larger awards that are going through a tender process, and you have a bit more visibility. Many, many of these smaller awards are direct awarded to our company. And some of those are actually customers that we have -- that have moved to our Subsea 2.0 standard that are basically, if you will, building trees on specs so that they have those available so that they can benefit from very short cycle tiebacks in the period of 12 to 14 months, which is half the time it has taken historically to do that type of work, and they get a huge benefit.

So what I would say is this quarter was probably a bit stronger than I would expect in future quarters, but we had a similar quarter back in Q2. So it is definitely moving in that direction. And remember, it's a combination of these smaller awards, but also the strength of our underlying Subsea services business. So certainly, it's going to be stronger than in the past, but I would say that this level and maybe a bit elevated to what I would model going forward on a more average basis.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

Okay. Perfect. Unrelated follow-up, I just want to kind of talk through some of the FX impacts. There's obviously a few components here. I mean, obviously, you point to the FX in some of the cost here, but the $14.5 million is just balance sheet translation as I understand it, not cash. But there's also a couple of other translation -- FX impacts that I just kind of want to ask. Backlog, it looks like there was some negative backlog translation. And then obviously, you've got the EBITDA, which is a function of revenue and cost translation. So maybe could you just kind of talk to what the revenue and cost and ultimately EBITDA translation impact was if you have that in the quarter. And then what FX rates should we be focused on as we kind of look forward and think about revenue and cost translation?

Alf T. Melin - *TechnipFMC plc - EVP*

Thank you for the question on this topic. So first of all, the $14.5 million, which you correctly characterized, mostly that is unhedged positions on cash or asset positions that are denominated in a currency that we cannot really hedge. So that's where the majority of that is. There is also an element of some increase in cost of hedging as the volatility in the market and the higher interest rate environment we're in, it's impacting some of that and creating some fluctuation.

But then going to your second topic of backlog, that's clearly the biggest impact for the quarter. And this is true for both revenue and backlog. When you think about Subsea, we do have a large portion of our revenue denominated in non-U.S. dollar currencies. And as the dollar moves in one direction or another, that does impact our topline as well as our earnings, as you point out. So the backlog impact was $300 million, a little bit north of that. And -- but maybe to quantify the numbers that you might be looking for in the revenue and earnings, I would say that it's around 5% impact if you look at Q2 to Q3. And obviously, going forward, we are more balanced at the current level. But -- so that's 5% on Subsea revenue and EBITDA, basically.

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Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

Okay. Just could you close the loop on that and just as we look forward, what FX currency should we be focused on when we think about hopefully maybe positive translation over the next 12 months, but who knows?

Alf T. Melin - *TechnipFMC plc - EVP*

Well, I'll say this. First of all, we don't take a view on where the currency is going. So it's important. So basically, we recalibrate our forecast based on where we land with the rates at the quarter end, basically. So that's -- you can kind of say that that's the jump-off point for looking forward, what are the rates at the end of this quarter.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

Okay. I was just trying to figure out which currencies you were mostly exposed to so we could track those?

Alf T. Melin - *TechnipFMC plc - EVP*

Okay. Well, so let me go back then to Subsea again. The major currencies that we're exposed to is reais in Brazil because we have a large portfolio in Brazil and as well as Norwegian kroner and some pounds, a little bit of euro, but mostly Norwegian kroner and pounds.

Operator

(Operator Instructions) Guillaume Delaby with Societe Generale.

Guillaume Delaby - *Societe Generale Cross Asset Research - Equity Analyst*

Yes. Just maybe a quick question regarding the Inflation Reduction Act in the U.S. Do you see as a consequence of this new legislation, some intensification with your clients? And to what extent should we expect a positive move on your CO2 activities over the next quarters given this new piece of legislation?

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

Guillaume, look, the real impact it has on our company is on the second portion, which is what you mentioned, which is the carbon capture sequestration opportunities. As you know, we've developed an integrated carbon transportation and storage system. We highlighted that back at our Analyst Day a year ago. It has been fully qualified. And again, I want to emphasize the belief that for carbon transportation and storage, we can just "reverse the flow" is simply not the case. It's going to require a very specific set of equipment and in many cases, design to a much different standard than we use in traditional oil and gas development.

So we're there. We have it. As you know, we've developed the technology. We built our partnerships, where we're working with Talos in the Gulf of Mexico and others in other places around the world. But in reference to the IRA, I'll highlight the relationship with Talos and the impact it has on the 45Q regulation, which we believe is very favorable and will certainly help accelerate the development of the various projects that we are working on at this time.

Operator

Marc Bianchi with Cowen.

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

I wanted to first ask about the $9 billion of awards over the next 5 quarters. Can you tell us how much is Subsea services? How much would be unannounced and how much would be large?

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

And I think that's really what's so unique about how we've changed our operating model, where we wouldn't be able to do that. We'd see capex levels increasing quite dramatically. But with the vessel ecosystem that we've developed and with the benefit of the CTO, we can stay at that low end of the range.

Operator

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

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Jack. This concludes our third 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 contact the Investor Relations team. Thanks for joining us. Jack, you can now end the call.

Operator

We thank you for your attendance. You may now disconnect.

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