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PRESENTATION

Operator

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

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

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

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

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

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

Free cash flow was $103 million in the quarter. And just yesterday, we provided 2 updates to our plans for shareholder distributions, with the first

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

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

Subsea backlog grew 29% sequentially to $12.1 billion of which 81% will be converted into revenue beyond the current year. I'd like to take a moment to highlight the quality of the inbound secured in the period. Subsea orders included 6 integrated projects, including the direct award of our largest iEPCI to-date, a contract from Equinor for the BM-C-33 development in Brazil. Year-to-date, iEPCI has accounted for more than 50% of

our annual free cash flow generation through at least 2025. We also expect shareholder distributions to grow in line with or better than the growth in total company EBITDA in 2024.

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

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

QUESTIONS AND ANSWERS

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

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

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

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

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

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

Operator

Arun Jayaram with JPMorgan Securities.

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

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

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

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

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

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

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

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

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

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

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

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

Operator

Luke Lemoine with Piper Sandler.

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

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

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

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

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

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

Operator

Kurt Hallead with the Benchmark Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

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

Operator

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