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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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*

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

Daniel Benjamin Thomson *BNP Paribas Exane, Research Division - Research Analyst*

Douglas Lee Becker *Capital One Securities, Inc., Research Division - Analyst*

Guillaume Delaby *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

James Carlyle West *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Kurt Kevin Hallead *The Benchmark Company, LLC, Research Division - Head of Global Energy & Equity Research Analyst*

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

Marc Gregory Bianchi *TD Cowen, Research Division - MD & Senior Energy Analyst*

Saurabh Pant *BofA Securities, Research Division - VP*

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

PRESENTATION

Operator

Thank you for standing by, and welcome to the TechnipFMC First Quarter 2024 Earnings Conference Call. I would now like to welcome Matt Seinsheimer to begin the call. Matt, over to you.

Matt Seinsheimer - TechnipFMC plc - VP of IR

Thank you, Mondeep. Good morning and good afternoon, and welcome to TechnipFMC's First Quarter 2024 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. Thank you for participating in our first quarter earnings call. I am very pleased with the strong performance in the quarter, which further highlights our continuing success in delivering on our commitments. Total company revenue for the first quarter was \$2 billion. Total company adjusted EBITDA was \$257 million with an adjusted EBITDA margin of 12.6% when excluding foreign exchange impacts. Total company inbound orders in the quarter were \$2.8 billion. In Subsea, we had a solid start to the year with first quarter orders of \$2.4 billion representing a book-to-bill of 1.4. Importantly, a significant portion of our inbound was driven by new technologies, several of which were industry first for subsea that will help unlock opportunities in both new and mature offshore basins.

In January, we announced our first iEPCI for Petrobras. This one utilizing subsea processing for the Mero 3 HISEP development. The project represents a major industry milestone as it will be the first to use subsea separation to capture CO₂ directly from the well stream for injection back into the reservoir, all of which will occur on the sea floor. During the quarter, we were also awarded the first iEPCI to utilize a 20,000 production system. This being for Shell's Sparta project in the Paleogene play in the U.S. Gulf of Mexico. The 20,000 psi production system includes new technologies required to meet the demands of high-pressure, high-temperature reservoir conditions.

This marks our third award for 20,000 production equipment as clients look to produce from deeper waters and reservoirs in the maturing basin. The Paleogene formation spans the central and western regions of the Gulf of Mexico with reservoirs located in water depths that exceed 1,500 meters and generally exhibit higher pressures. The Paleogene has become one of the most productive and fastest-growing sources of supply in the Gulf. And it is estimated that 1 billion barrels of discovered reserves will require the use of 20,000 technology for development. We expect additional projects to successfully move forward over the next 24 months, representing yet another opportunity set for our company.

And finally, we announced an award from the Northern Endurance Partnership to deliver the first all-electric subsea iEPCI, which is anticipated to be inbound in the second half of this year. The partnership, which is a joint venture between BP, Equinor and TotalEnergies, is building CO₂ transportation and storage infrastructure for carbon capture projects in the U.K.'s East Coast cluster. Our all-electric solution will collect and feed the pressurized gas into an aquifer for permanent storage. All-electric systems drive simplification of the field design, enabling the reduction of infrastructure and installation time through the removal of hydraulic components and simplified umbilicals.

The technology also enables the development of projects over long distances. With Northern Endurance, the power and controls to the subsea equipment will extend 145 kilometers from the onshore host facility. The award of an entirely all-electric subsea system is a significant achievement for both our company and the industry. Mero 3 HISEP, Sparta and Northern Endurance are all strong examples of our differentiated technology portfolio. Each of these projects provides a unique solution to an industry challenge. And it is this unique combination of innovative technologies and integrated execution that is creating new market opportunities for our company.

While project selectivity remains a critical objective, it is even more important that we successfully deliver on time and on budget as promised. As demonstrated by our financial performance in the quarter, operational execution across the portfolio continues at a high level, driven in part, by this focus on project selectivity and the favorable impact it is having on the quality of orders in our backlog. Having both the right backlog and strong execution gives us confidence that we can capitalize on the strong market and achieve our financial targets.

Finally, we completed the sale of our measurement solutions business in March. In keeping with our commitment to shareholder distributions, a significant portion of the proceeds were allocated to repurchasing \$150 million of shares in the first quarter. This brings our total shareholder distributions to \$520 million in less than 2 years. And given this acceleration in share repurchases, we now expect total shareholder distributions in the current year to grow at least 70% when compared to the levels achieved in 2023.

I will now turn the call over to Alf.

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

Thanks, Doug. Inbound in the quarter was \$2.8 billion, driven by \$2.4 billion of subsea orders. Total company backlog increased sequentially to \$13.5 billion. Revenue in the quarter was \$2 billion. EBITDA was \$257 million, when excluding a gain on the sale of our Measurement Solutions business of \$75 million; restructuring, impairment and other charges totaling \$5 million and a foreign exchange loss of \$4 million.

Turning to the segment results. In Subsea, revenue of \$1.7 billion was largely flat versus the fourth quarter. Higher project activity in Brazil and the Gulf of Mexico was largely offset by lower activity in the North Sea and Asia Pacific and reduced services revenue due to typical offshore seasonality. Adjusted EBITDA was \$242 million, with a margin of 14%, up 90 basis points from the fourth quarter. The sequential increase was driven by strong execution and improved earnings mix from backlog.

In Surface Technologies, revenue was \$307 million, down 14% sequentially. Revenue decreased due to the closing of the sale of measurement solutions before the end of the quarter, lower activity in North America and portfolio optimization in Latin America. Adjusted EBITDA was \$41 million, a 21% decrease from the fourth quarter, driven by lower revenue from Measurement Solutions and lower activity in North America. Adjusted EBITDA margin was 13.5%, down 120 basis points versus the fourth quarter.

Turning to corporate and other items in the period. Corporate expense was \$27 million when excluding charges of \$5 million, which were primarily transaction-related costs associated with the sale of Measurement Solutions. Foreign exchange loss was \$4 million. Net interest expense was \$13 million, which benefited from higher average cash balances in the period. Tax expense in the quarter was \$50 million. Cash required by operating activities was \$127 million. The outflow follows the typical seasonal pattern of our business. Additionally, cash flow in the period included a payment of \$56 million to the PNF. Similar payments will occur in the second and third quarters and will fulfill our remaining obligation.

Capital expenditures were \$52 million. This resulted in free cash flow consumption of \$179 million in the quarter. As Doug highlighted, we completed the sale of the Measurement Solutions in March. Proceeds from the sale were \$186 million, with the majority being used for share repurchase. This drove a significant increase in total shareholder distributions in the first quarter to \$172 million, which included \$150 million for share repurchase and \$22 million in dividends. We ended the period with cash and cash equivalents of \$697 million. Net debt was \$327 million.

Now I will provide some thoughts on our outlook. Starting with the second quarter. For Subsea, we expect to benefit from the typical seasonal uplift as well as improved margins in backlog with sequential revenue growth of approximately \$200 million and margin expansion of approximately 250 basis points. For Surface Technologies, we expect revenue and adjusted EBITDA margin to be in line with the first quarter. This includes the impact of the sale of Measurement Solutions.

Now I will also give you an update to our full year outlook. Given the anticipated strength of our first half results and taking into account a range of outcomes, we now expect total company adjusted EBITDA to approximate \$1.29 billion when excluding foreign exchange, an increase of approximately \$40 million from the guidance we provided in February. Within this total company outlook, we see the following relative to the guidance provided in February. Subsea revenue and EBITDA margins both trending towards the upper half of the guidance ranges. Both revenue and EBITDA margin for Surface Technologies as well as corporate expense remain on track for the midpoint of their respective guidance ranges.

Lastly, I want to discuss our current view of our capital structure. In March, we received an upgrade from Standard & Poor's to investment grade. This upgrade serves as a significant milestone for the company and reflects the tremendous efforts by the entire organization to materially deleverage the balance sheet and achieve investment-grade metrics. With this update, we are also revising our target capital structure to approximately \$800 million of cash and \$800 million of debt, together amounting to zero net debt. This is a \$500 million reduction versus our prior target and the level we can achieve over time as scheduled debt maturities come due. Importantly, we believe this capital structure provides us with the flexibility to manage our operations and fund our capital needs while also delivering on our commitment to shareholder distributions.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Arun Jayaram with JPMorgan Securities.

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

Doug, I wanted to see if you could provide more details on Northern Endurance what do you think drove your success on the projects? Maybe more details on the scope and perhaps what technologies is FTI providing in terms of the CCS nature of that project?

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

Thank Arun. Good morning. Look, this was as stated in my prepared remarks, a major milestone for our company but also for the industry. This will be the first application of an all-electric production system. We are extremely proud to have been selected. There was a very rigorous technical qualification required to be able to be considered and to receive the award. And we're pleased that we came out on top of that qualification. I think of it as everything from the shore to the seafloor. We call it the integrated carbon transportation system. We have a specific CO₂ tree, so part of our 2.0 family. We have developed a configure to order CO₂ injection tree.

It looks simplified compared to a traditional oil and gas tree, but it's actually very technical, particularly when it comes to the sealing surfaces because of the number of times that you were open and close or would be called a cycle, the cycling of a valve in a CO₂ injection tree is far, far greater than which you would do in a typical oil and gas development. So a higher technical standard. We were extremely pleased to be selected for that. And we have that entire scope and what's really interesting about it is the distance that is being traversed. There's over 145 kilometers, and there will be nothing floating on top of the water. In other words, we've taken it all subsea much like we did on the CCS project in Brazil on the HISEP project, it is just a major, major milestone where we are really driving the CCS market by enabling the seafloor to be a key component of these projects.

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

Great, Doug. And I wanted to see if you could maybe comment in your prepared remarks, you talked about some new technologies that you're using to unlock opportunities in more mature basins. I was wondering if you can maybe expand upon that and maybe comment on what you see in some of the more mature basins? I know one of your peers talked about anticipating maybe an improvement in West Africa starting next year, but maybe if you could elaborate on that?

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

Sure. So there's just the, I would call it, traditional projects that are likely to be driven forward in mature basins given the project economics by doing it with an integrated approach, what we call iEPCI, along with our 2.0 family, we can help unlock the economic value of those projects. But specifically, what I was referring to was in a mature basin there's really 2 opportunities is to find a different producing horizon. And in the case of the Paleogene, it's a deeper horizon, in the Gulf of Mexico, or it could just be a further step out from the host facility. And so what are the technologies that are the key enablers.

To get to the Paleogene, it's 20,000 and to have a full 20,000 production system fully qualified, supported by the regulators as well as our clients, major achievement. As noted, this is our third project. This is the first integrated 20,000 project to be awarded. And as alluded too in the script, we expect more to come in the future. When you look at the further step outs in a mature basin, that will be enabled by all-electric. So this will be the primary application in the traditional energy or the oil and gas environment when it comes to the all-electric production systems, again, enabling a much greater distance up to 3 to 4x further than you can do via using hydraulic controls to reach back to an existing host facility. So the 2 key technology enablers in this case being 20,000, and the all-electric.

In the case of HISEP, as we talked about in the first quarter, it was advanced CO2 subsea separation technology, where we are separating and then reinjecting all on the seafloor.

Operator

Our next question comes from the line of James West with Evercore ISI.

James Carlyle West - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Actually, I saw your results. I know how you're doing. You're doing well. I wanted to start a little bit bigger picture. It's something we've talked about a bit in the past. With the backlog that you have now, all of these iEPCI contracts coming through, how are you feeling about capacity? And are you starting to really lever into some of these joint ventures and partnerships to add to that capacity to make sure you can deliver on all those backlogs?

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

James, a timely question. I would expect that you will see us utilize the support that we have within our ecosystem to be able to continue to grow and expand the iEPCI market. And just for those that are not as familiar with the terminology, ecosystem, we made a decision years ago that we would restructure the way that the subsea industry operated, both from the integrated projects, but also from the way that we would drive higher asset utilization and drive through cycle returns, to a standard that was not only higher than in the past, but sustainable. And the way we would do that was to work well with others.

And that's the personality of our company. We're not a big monster. We work well with people. We have very deep relationships, and they're all trust-based, and we put a lot of time and effort into that. So what that's allowed us to do was to go out to other vessel operators, introduce them to the iEPCI concept. And as the iEPCI market continues to grow and become a very significant portion of the total projects that are being awarded today providing access to our partners to work alongside us on those projects and deliver integrated projects.

So that's what allows us to, if you will, expand beyond theoretical capacity in the installation portion of the projects, but there's also the manufacturing side of the projects. And this is a significant benefit. And I think one that's not been fully understood, but as you see it showing up in our financial results now of the ability to be able to get leverage by using Subsea 2.0 configure to order. It runs through our plant at approximately double the cadence or 1/2 the time as a traditional 1.0, which is what the rest of the industry is building today. So they have to get additional capacity either through consolidation or by expanding their capital budgets and building plant whereas we've invested in the technology and the technology and then the system of going from an engineering to order to a configure to order allows us to have that additional cadence through the plant.

So again, allowing us to expand far beyond the traditional theoretical capacity. So look, we monitor the situation very closely. We're very open. We share it with our clients, we're having very long-term discussions well beyond the time period that we would traditionally be having discussions, and they have the confidence to have those discussions with us because of this new operating model, and they understand that we are doing things that will allow us to have the capacity to continue to expand and deliver and support their projects.

James Carlyle West - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Okay. Got it. Very helpful, Doug. And then I thought some of the first-time awards, particularly in the carbon capture side are fascinating. Could you maybe expand on this use of the seafloor for CCS? And was this contemplated initially as we targeted these projects? And if so, are additional offshore projects all targeting that? And then is it the technology are you using kind of existing technology? Or is this new novel technology?

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

Both great questions. So look, we've been working on this for quite some time. Anyhow James, as you know, we look at any challenge from the seafloor up. And I think we might be the only company that really takes that approach because most companies and quite frankly, most developers think about onshore. And then if they go offshore, they want to have some sort of fixed bottom like a mono power or something that is touching the sea floor or if they go further offshore, they want to have some sort of a floating structure. We fundamentally believe the right way to do it is to eliminate the greenhouse footprint associated with those structures is to put everything on the seafloor, but it takes very advanced technology, material science, automation and controls that, quite frankly, there's very few places in the industry.

But beyond the industry, in academia, et cetera, that really exists today. And we're proud, that's where we operate. We're putting things 1 to 2 miles deep in the water on the seafloor, designed to last for 25- to 35-year life with all advanced automation, robotics and controls that, quite frankly, challenge anything that's being done in the industry or beyond the industry today. So when we look at a challenge like CCS, sure, we can be involved in a terrestrial project and happy to be involved in those projects.

But fundamentally, we believe that the safest and best place to store the CO2 will be in saline or abandon depleted reservoirs for offshore. And they exist. They're well known. You can then transport from shore all the way into those injection fields all subsea without having any sort of a floating infrastructure being demonstrated in the Northern Endurance partnership project, as we described.

From a technology point of view, it is important to note there are people that believe you can just reverse the flow and use existing oil and gas infrastructure, that's not true. It is much more of a technical challenge than that would make one believe. I talked a little bit about the tree and the tree design, the valves on the tree, as I explained. It also comes down to the control and automation and also the monitoring that's required on these projects.

So we have developed an entire, again, called an integrated carbon transportation system that allows us to take it basically from the host facility to an injection point. And we definitely see the trend and not just in CCS, but also in other forms of energy. And new energies that are really for them to reach their fullest potential to achieve the scale that is required. We see this going offshore, and that is certainly the trend and one that we are helping to enable and we're proud to do so.

Operator

Our next question comes from the line of Luke Lemoine with Piper Sandler.

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

Yes, sure. Just talking about the first all electric system for Northern Endurance for CCS, when you kind of look at oil and gas, when can we start to see any uptake for all-electric. And when you're speaking with customers, what are the pinch points if there are any when your chatting with them?

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

Sure. Thank you, Luke. Look, oil and gas is happening in parallel to the CCS opportunity. So you will see oil and gas opportunities using all-electric full field development, and I stress full field because keep in mind, we've been using electric actuation for many years, and we have over 600 electric actuators installed on subsea equipment around the world. So that part of it is not novel. But to go to a fully electric system, which would include an electric subsurface safety valve would be unique, and that's a partnership for us that we're working together with Halliburton to enable an all-electric subsea field development.

But again, there's commercial activity going on in parallel. So you will see more in that area also. I would stress, though, in the area of oil and gas that I see the bigger opportunities in the tiebacks. And why is that? Look, now all-electric tree is more expensive than a electro-hydraulically operated tree, for all the right reasons. Now when you look at it from a tieback point of view, those economics dissipate very quickly because in a long-distance

tieback, the umbilical and the cost of the umbilical across that very long distance to be able to use hydraulic actuation would either be limiting. It would not be possible or it would be very costly. But when you look at it on a unit cost versus a unit cost, an all-electric tree is more expensive. So therefore, in a greenfield development, I think those opportunities will be there.

But the big market, and I stress, it will be a significant market will be in the area of brownfield. We've talked about it before. If you look around the world at all the floating production assets that are today, FPSOs, FPSUs, they're producing at between 60% and 70% of nameplate capacity. All-electric brownfield tiebacks will allow them to be able to bring that back up to near nameplate capacity without any significant capital cost. And we've gotten the cycle time now on those brownfield projects down to such a level slightly over 1 year that it makes the economics very, very compelling.

Operator

Our next question comes from the line of Guillaume Delaby with Bernstein.

Guillaume Delaby - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Yes. Maybe a quick question regarding your new capital allocation policy. I'm not sure we can call it that way. So is it essentially resulting from, I would say, a better financial outlook or is there also some kind of underlying, I would say, strategic thinking behind it, so maybe if you can elaborate a little bit on that? And an associated question. Maybe I know it's time for capital discipline, but are you still considering or do you may consider to do some small targeted acquisitions again in the coming quarters?

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

So let me start with the second part, Guillaume, and thank you for the questions. Look, we have and will continue to do small targeted acquisitions. But in most cases, we're taking small investments in early start-ups. Often, it doesn't cost any capital because we're using financial capital because we're using human capital. The greatest currency we have in our company today is our subsea engineering. It is very unique to our company. And we have, by far, the most significant and most experienced and talented workforce.

So often, we can trade, if you will, subsea engineering hours to a company who's trying to tackle this challenge of how do I go from being a terrestrial developer to being an offshore developer. Things change quite a bit. And we have that knowledge, particularly when it comes to dynamic design, and I won't get into the details of that, but that's a major component. And then also, obviously, putting things onto the sea floor. I'm going to have Alf weigh in on the first part of your comment. But I do want to comment, Guillaume, there were 2 major messages that Alf delivered earlier. One, we were upgraded by S&P; and two, we are targeting net zero in terms of our net debt. So 2 major milestones, but I'll pass it over to Alf.

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

Yes. Doug, thank you. And maybe just to build on that. So today, so we have a gross debt of just above \$1 billion and a net debt of \$327 million. And we have previously stated that we will operate this company on \$800 million of cash. And further, as Doug said, I honestly believe that the net debt neutral position is a good target for us, and it would imply that we would reduce debt by a little more than \$200 million from the current \$1 billion level. And so this is, call it, an intermediate-term target and not necessarily where we need to be immediately.

And we certainly have debt that is going to mature over the next 2 years that will take us there naturally. I will also emphasize that given our business outlook and the strong cash generation, we see ahead, we continue to believe that share repurchases remains one of our best uses of funds, and we demonstrated that by distributing the majority of the Measurement Solutions proceeds here in the first quarter, but we also remain committed to achieving investment grade. And as Doug said, we achieved an upgrade to investment grade from S&P now just in March.

But overall, when you think about it longer term and strategically and maybe that's what you're asking, with expected growth in EBITDA and with the debt keeps on coming down from current levels, clearly expect to be below one time gross debt-to-EBITDA leverage ratio as we go forward.

Operator

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

Marc Gregory Bianchi - *TD Cowen, Research Division - MD & Senior Energy Analyst*

I wanted to ask about your scope opportunity on large projects. And I'm looking at the Whiptail award and the Uaru earlier I think you had expected them to be over \$1 billion of inbound and they ended up being \$500 million to \$1 billion. I suspect what might be going on there is some of the scope that you anticipated to get didn't materialize for you, it went to competitors. But could you maybe address that? And then talk about for your direct awards, sort of what scope you're getting right now versus maybe what your opportunity could be over time?

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

Look, that's an important question. If it's on your mind, then we need to clarify it. So I appreciate you giving us the opportunity to clarify it. The subsea opportunity list that we publish every quarter is published from an industry perspective. Think of it as the rig count, if you will. So we're trying to demonstrate to give people, the opportunity to be able to see the opportunity set that exists within the subsea industry. Therefore, when we put that out, that's not what we expect or what we anticipate, these are projects that are being tendered by our clients, and the full scope of that is reflected in the value of those awards or what we place the value, if you will, we use purple, blue and red on our chart.

So hopefully, that clarifies this is just what the company happens to be tendering. We may or may not be targeting the full scope of the project. In many cases, we are. What's important also to understand is that is a subset of the opportunity list for TechnipFMC. Now that is the full opportunity set for the competition. But for TechnipFMC, because we are an integrated company, because we have iEPCI, because we do integrated FEED studies, we have the ability to enter into an exclusive proprietary integrated FEED study that upon completion, assuming we achieve the economical hurdle rate, for the project and the project receives FID, that project is then direct awarded to our company. Those aren't on the Subsea opportunity list.

Occasionally, one might show up on there just because it's such a well-known project. We need to put it out there. But because these are direct awards and proprietary to us, they're not on that opportunity list. So we have a second opportunity list that we look at every day, and that's really what drives the performance of our company and quite frankly, the outperformance and why our inbound numbers often surprise to the upside. So just to give you a little bit of an idea of which there's really 2 lists, we're looking at one, the world is looking at the other.

We may not be tendering some of the projects, by the way, on the subsea opportunity list because we may not think that they're projects that we can contribute to greatest value to, meaning integrated or Subsea 2.0 or whatever it may be or we may be concerned about something about the project. So we may or may not tender those as well. As far as the scope, I think you know we have the most comprehensive. We can do an entire subsea project. We don't have to bring in a third party or buy third-party key components. We've talked about it before, the ability to be able to have the entire SPS, the entire SURF, both products and installation capability makes us and positions us uniquely.

Operator

Our next question comes from the line of Kurt Hallead with Benchmark.

Kurt Kevin Hallead - *The Benchmark Company, LLC, Research Division - Head of Global Energy & Equity Research Analyst*

Maybe just a quick follow-up with respect to Marc's question, right? So again, in the most recent past, you guys have given some of your outlook regarding what you would anticipate your subsea order book to look like over the course of the next couple of years that wasn't explicitly referenced in this call. However, given the dynamics at play where you can talk about quality over quantity, and then you talk about new technologies, unlocking new business opportunities. I was wondering if you might be able to give us some update on how the order outlook has changed or if it has changed at all?

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

Again, Kurt, much like Marc, thank you for clarifying because we do our best to communicate effectively, but you learn as well. So the fact that we did not mention that we have a target of \$30 billion of orders for 3 years through 2025 or that we remain very confident in achieving our 2024 guidance of approaching \$10 billion of orders. Us not saying it, we thought it was a strong message that we're very confident, but let me be very clear we remain very, very confident. In terms of the FEED activity, in terms of the tendering activity and in terms of the, I would say, very mature, meaning late-stage pre-FID conversations that I'm having with clients today and I'm not complaining about it, Marc, but I'm very, very busy.

Operator

Our next question comes from the line of Scott Gruber with Citigroup.

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

I got one for Alf. With the profitability of the business improving, the tax rate should trend towards a more normalized level over time. And we have the guidance for this year, how should we think about the evolution of the tax rate in '25 and '26, where could that fall to in the years ahead?

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

So thanks for the question on the taxes here. So first of all, maybe just point out, if you look at the effective tax rate for the quarter, there is a little bit of a timing effect of it being a little bit lower than normal in this quarter. So first of all, we stand behind our guidance of \$280 million to \$290 million for 2024. And if you consider the growth in EBITDA, et cetera, that we are projecting, I'd say that this is implying a roughly 35% effective tax rate for the year with our current earnings mix as planned.

As we talked about a little bit before, we are targeting a normalized tax rate of 30%, and I would continue to build on that or model on that if you're looking for the out years, it largely will come from a combination of earnings mix and some other utilization of tax opportunities that we couldn't take advantage of it in the past. So overall, we remain confident to drive towards a 30% normalized tax rate.

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

And how long do you think it would take to get there? Is that something that's possible in '25 or in '26?

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

You're in the right ballpark of somewhere in that between those 2 years, yes.

Operator

Our next question comes from the line of Doug Becker with Capital One.

Douglas Lee Becker - *Capital One Securities, Inc., Research Division - Analyst*

Doug, you previously mentioned that all-electric subsea production systems could result in incremental tieback opportunities of \$8 billion through 2030. I was just hoping you could frame maybe a realistic or risk opportunity as you see it today for FTI?

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

Yes. Thanks, Doug. Yes, that number is probably a little stale actually at this point. I would say there's upside to that number in terms of -- we put that out in, I think, 2021. Clearly, all-Electric and the adoption and qualification of all-electric is now. We've pretty much covered our entire client base. And that takes some time. It's obviously developing the technology, but then qualifying it and then getting your customers aligned.

I don't have a hard set year-by-year kind of how I see that developing yet. It might still be a little bit early, but obviously, getting the first award was key, that being in the CCS environment, not in the brownfield tieback environment. But as I said, things are being bid in parallel today between CCS and traditional energy. So there'll be more to come. But look, Doug, we remain very confident.

And this one, I'll be honest, this one is a little bit of a no-brainer. If you're sitting with an existing host facility that's aging every day, that you can get some additional hydrocarbon to flow through and obviously improve their financial results and leverage the cost of that capital investment that you may have made many years ago it just makes sense. So we're in a unique position. We have a lot of the infrastructure. You know over 50% of the world's infrastructure on the seafloor.

So we're in a unique position to really try to help to kind of marry up somebody that has a, what would be called a stranded asset, simply meaning it was too far away from a host facility to be able to be economically produced and could not support its own host facility because of the CapEx required to do so to be able to marry that up with somebody that has a production asset. And that's certainly what we're doing today in the conversations that we're having.

Douglas Lee Becker - *Capital One Securities, Inc., Research Division - Analyst*

No, that certainly sounds encouraging. Is it reasonable to expect an all-electric award on the oil and gas side this year or more of a 2025 award?

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

We'd like to think about things in 24-month time frame just to be a little bit conservative, but you could see something on the shorter end of that for an all-electric oil and gas award or a project being FID. I do think you could see that. Again, up to our customers when they FID. But if I just think about the commercial discussions and the maturity of those discussions, and that's what I meant by in parallel, meaning it wouldn't be too far out.

Douglas Lee Becker - *Capital One Securities, Inc., Research Division - Analyst*

Got it. And then just a quick one. Alf, the free cash flow loss was narrower than at least I expected to what consensus expected in the context that subsea is toward the upper half of the guidance range. For free cash flow, is that trending toward the upper half or midpoint still the best place to anchor?

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

So first of all, on free cash flow, you're right. We had a strong first quarter for being us at least, the net outflow represents really -- 179 really represents a solid start for the year for us. And because it is typically our seasonally most weak quarter that we have. And also point out that we did have the \$56 million payment towards the legal settlement that affected the quarter. So overall, we feel really good about where we are. And I expect,

obviously this to build during the year. We typically trend up during the year, and you will see the majority of the cash flow generation in the second half of the year.

And clearly, as we grow EBITDA, and in particular in Subsea, we expect to see a little bit of additional conversion of free cash flow from EBITDA, and we typically use the 50% ratio is where we operationally sit today. So if you want to use that as an approximation. But we're not ready to officially take up free cash flow. There is always working capital dynamics and other things that lead to the end of the year. And again, if you look at our business profile, fourth quarter will still be the big quarter to determine the overall cash flow for the year.

Operator

Our next question comes from the line of Daniel Thomson with Exane BNP Paribas.

Daniel Benjamin Thomson - *BNP Paribas Exane, Research Division - Research Analyst*

I had a question on HISEP. I mean now that the contract has been awarded and clearly, your part of the technology has been qualified with Petrobras. Can you talk about the conversations you're having with that client around using the technology on other fields, anything specific to flag? And have you had any interest from other clients in Brazil or internationally about using a similar technology?

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

Thank you and good afternoon, Daniel. The answer is yes and yes is the short answer, but I'll give you a little bit of color around it. Clearly, Petrobras is approaching this as a design one build many, obviously, a benefit of being part of this first award. But they clearly see this as an opportunity to reduce the greenhouse gas intensity first and foremost, but also in the case of the Mero 3 project because it's in an existing field or a brownfield, if you will, it also allows to debottleneck and increase production at the same time.

But I don't want to speak too much on behalf of my clients, but I can assure you, Petrobras has stated and very much see this technology as one that they are going to use multiple times. Interest from other clients. First of all, there were partners in the Mero 3 project, a very well-known large world-class companies as well along with Petrobras. So they've obviously been intermittently involved and are supportive of the technology and obviously supportive of the project, they provided partner approval for the FID. So we have those who are quite intermittently included. And I'll tell you, just recently, I traveled actually with a client to Brazil because they wanted to learn more about it. Now they won't be using it in Brazil, they would be using this type of technology outside of Brazil, but they were so interested and I was more than happy to participate in that visit with them.

And with the support of Petrobras, we were able to share with them some of the good things that we're doing and what we've done in terms of the development of the technology. So again, short answer, yes and yes.

Daniel Benjamin Thomson - *BNP Paribas Exane, Research Division - Research Analyst*

And if I can squeeze in a follow-up. This time on the surface business in Saudi Arabia after the Aramco MSC 12 announcement, I mean given the incremental spending is going onshore unconventional gas from an offshore market where you don't compete. I mean this seems like an incremental positive for your particular mix in the Middle East. But can you confirm your readiness to respond to that incremental onshore demand for surface equipment? And how does the opportunity in Saudi compared to expectations for demand before the announcement from Aramco?

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

Sure. And Daniel, maybe just to clarify for everyone, in Saudi Arabia, that business falls under our Surface Technologies business. And when we think about wellheads and trees, if they don't get wet, i.e., if they don't go below the water surface, then that falls under our Surface business. So

our business in Saudi Arabia is primarily an onshore business. That's what we do. And actually, we're very, very good at it. So the reduction in the jackup market and the reduction in some of the offshore activity.

It does affect us because, again, they typically are produced from a production platform, so it's a dry tree. But the number of wells versus the CapEx dollars spent versus the number of wells that can be drilled for the same amount of CapEx on land. The latter is obviously far greater. So from our perspective, I'm only answering from our perspective, selfishly a shift to land CapEx from offshore CapEx is very favorable to our company. Think of it as simple as we sell product that allows a well to be safely and environmentally appropriately produced.

And so we get paid by the wellbore, if you will, and that's what matters. In addition, gas is important to us. Our revenue per unit sold is higher in gas than it is in oil. So the shift to gas is favorable. And in unconventional gas, we are able to provide additional products around the fracturing and the stimulation side of it as well. So it expands our, let's say, revenue per well. So that's how the market works for us.

Now more importantly, and as you've been following the company, we decided to make a strategic investment in Kingdom to bring manufacturing capacity from Asia to the Kingdom. We continue to ramp up our new facility, and that has gone very successfully. We've not yet reached its fullest potential, and we anticipate further improvement in the second half of the year. So Saudi Aramco remains very important to us. The Kingdom is a key contributor to our surface international business, and we're very well positioned. And quite frankly, some of the announcements have been favorable from our perspective.

Operator

Our next question comes from the line of Saurabh Pant with Bank of America.

Saurabh Pant - *BofA Securities, Research Division - VP*

Doug, maybe let's spend a little time on the quality of the backlog that you've been talking about on the subsea side, right? I think it's a little bit and results you're delivering the margins you are delivering, but also the new technology work that you're winning. If you can spend a moment on a phrase you mentioned in your press release, Doug, the heightened focus on project selectivity, how are you doing that? What's the focus? Is it more about terms and conditions? Or are we talking about just integrated projects versus the stand-alone projects?

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

Sure. Great question. We talk about it every day. As we look at the different opportunities that we have in front of us. Look, it's a combination of all of the above. But let's start with the main thing that really drives what we would deem as quality because we believe it and we've demonstrated it's best for the project in terms of shortening cycle time, accelerating time to first production and it greatly simplifies our execution model is the Subsea 2.0 configure to order. So clearly, the higher the 2.0 orders, the higher the quality of the backlog. And that allows us to go from engineer to order to configure to order.

As I've talked about before on this call, that allows us to eliminate 9 months of engineering. So we take a 1.0 order, which is how the rest of the industry is operating, they have to spend 9 months or we would have to spend 9 months doing detailed engineering because you're building a first article. It's never been built before. So you have to go through that before you place a single purchase order with the Subsea 2.0 configure to order platform. And again, you can't just say, I have it. You have to have a platform, you have to have critical scale that allows you to not only simplify the internal, as I talked about, putting twice the volume through our existing manufacturing footprint, but it also allows us to simplify and to secure a much more reliable and competent partners in our supply chain.

So it's really a combination of the 2 that lead to the quality. In addition to that, an integrated project, we just have many more levers. We take on the full scope. We have the ability to be able to schedule activity that best works for us, and that's why it was so important to consummate the relationship and create TechnipFMC because very difficult to do when you're not a single entity with a single set of financial reporting and a single set of objectives because then you have underlying competing interests. So we have that.

And then on top of that, sure. The terms and conditions of the contracts are important. Our customers understand that. We've talked in the past about what we've done to ensure that the things are being shared in the most appropriate way. And for instance, when it comes to inflation, we put in place several parameters that allow us to be more confident that we're not going to be surprised on that side. So all in all, it's a combination of the 3, but it's very clear for us where our focus is, and as you hear us announce these iEPCI and iEPCI 2.0 and 2.0 awards, it's just very, very favorable to the future and to the assurity of our execution.

Saurabh Pant - *BofA Securities, Research Division - VP*

No, that's very helpful. Just a very quick follow-up, Doug. I know your \$30 billion in your order outlook for subsea that does not include any of the frontier basins. But the news flow, especially from Namibia has been particularly positive. Can you share any updated thoughts on your outlook in terms of the frontier basins? I know it's beyond '25, but any updated thoughts, Doug?

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

Sure. lots of discussion, lots of activity. We're using our playbook from Guyana and Mozambique, both of which, we were the first mover. We understand how to do this in these emerging markets. We're executing the same playbook in the other emerging markets. And I would say, net-net, from most recently, the indications from our clients that they have stated publicly, I'm not saying anything that's not public I would say, is more favorable trending in a very favorable fashion. So we look forward to the contribution from those emerging markets in the latter part of the decade.

Operator

Our last question will come from the line of Bertrand Hodee with Kepler Chevreux.

Bertrand Hodee - *Kepler Chevreux, Research Division - Head of Oil and Gas Sector Research & Equity Analyst*

I have probably a follow-up on Namibia. Based on your early discussion and clearly no need to mention any operator name here. But conceptually, from your understanding, do you believe it will require specific technologies and/or the iEPCI model or Subsea 2.0 will be well suited for future Namibia development?

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

Look, speaking of Namibia in particular, the one well-known challenge will be the water depth. So these are very deep. It's very deep within the operating parameters of 2.0, so no concern there. And certainly, we believe the iEPCI model, as we've demonstrated in other emerging markets is clearly a very favorable model and one that we would expect would unlock the greatest value and accelerate time to first oil for our customers, which drives their project economics.

So iEPCI, 2.0, but working very closely with our clients. So they're obviously learning as they're doing their extended well tests in terms of the producibility of the reservoirs, the compartmentalization, the geochemistry. So there's things we're learning along the way, but we are actively engaged with them to ensure that we'll be ready to provide them world-class subsea support.

Operator

I would now like to turn the call over to Matt Seinsheimer for closing remarks.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

This concludes our first 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 free to contact any member of the Investor Relations team. Thanks for joining us. You may now end the call.

Operator

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

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