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# EDITED TRANSCRIPT

FTI.N - TechnipFMC PLC at Barclays Energy Power CEO Conference

EVENT DATE/TIME: SEPTEMBER 04, 2018 / 4:25PM GMT

## CORPORATE PARTICIPANTS

**Maryann T. Mannen** *TechnipFMC plc - Executive VP & CFO*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

And I'll probably say, you and I have probably known each other probably more than just about any other executive I know on the Street, having covered FMC. It's actually the first service stuff I ever covered after covering E&Ps.

So anyways, enough of me, more about Maryann. Maryann, please, thank you very much for joining us today. Obviously, some very exciting times with TechnipFMC, with offshore starting to ramp up. So we're looking forward to hear more about that. Please? Thank you.

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**Maryann T. Mannen** - *TechnipFMC plc - Executive VP & CFO*

Great. Thank you. Thank you so much, David, and thank you for your interest in TechnipFMC. Quick little disclaimer.

So let me take you back. Since the formation of TechnipFMC just about 18 months ago, we really have been focused on trying to deliver a differentiated business model to the marketplace. We're doing that through a couple of key areas. Obviously, winning, executing, and then, leading, and I'll spend a little bit of time sharing with you some of those successes.

As a new company, where one really built around a completely new business model and one that we believe could lead sustainable change. We came together largely for our ability to influence deepwater development, to reduce cost and provide a model for our clients and customers that would allow sustainable change for deepwater development. We're doing that through a new model, obviously trying to win their trust, and then, executing in terms of our ability to bring the value proposition and make deepwater projects economic.

We think winning has really only been the first step, and we must execute. And we've been pretty pleased with our performance for 2017, and I'll share with you a little bit about that for 2018.

Our success has continued off of what I would say a pretty strong base for 2017. Solid order intake for the first half of the year, $7.7 billion. As you can see, a book-to-bill of 1.3 orders have exceeded revenues in all 3 of our segments. Again, we think a pretty important element. We've delivered really solid financial results. If we look at our adjusted EBITDA at about 12.5% through the first half of this year, it's down to only about 20 bps from the same time last year, considering that we saw an anticipated 16% decline in our overall revenue. We think we've got a focus on our execution across all of our segments, delivering very solid margin execution.

Leading, another critical element in terms of TechnipFMC, and that is trying to lead this industry change. In the first half of this year, we've been awarded 3 iEPCI awards, a total of 9 altogether. We think, a good indication of the uptake of this integrated model, clients adopting the integrated approach. We've got a good example here, what was just recently been announced in the shale, Kaikias Project, first completed iEPCI award and had been one of Shell's most important projects. We'll talk a little bit about that in a moment.

I'll give you a little bit of focus on the second quarter, kind of bring that down a bit. Inbound orders were a record 4.2 billion. That was our third consecutive quarter of order growth. We drove sequential growth in backlog, which now stands, as you can see, at about $14.9 billion at the end of the second quarter, and an increase of 15% since year-end.

That improvement's largely been in the Onshore/Offshore business. It's been quite significant. Backlog for the segment now stands at $8.3 billion. It's an increase of 30% since year-end. Maybe the most important piece of all that despite the great order flow and the potential for the second half of the year as well, is the fact that Yamal, one of the larger and more critical projects in the Onshore/Offshore business, is declining not only in terms of its ability to deliver the top line, but its backed long as well. So I'll share with you here in a minute what it looks like, the balance of the business.

Results of our surface business, we had a tough first quarter. We had some of our own challenges. As you can see in the second quarter, we saw good recovery of that, the first quarter performance and delivered adjusted EBITDA of at about 18.1%. Back half of the year were targeted, actually, to be better than the first half of the year, given the strength in the North American market. Obviously, a little bit of concern depending on what's going on in the Permian, and we are obviously leverage to the Permian as well.

I'm going to reiterate Kaikias, because I think it's important. This integrated approach is a critical element of our ability to deliver value to the client. Shell announced the early start of production from the Kaikias development in the Gulf of Mexico. Production was achieved 1 year, 1 year ahead of schedule, with a breakeven somewhere around $30 per barrel.

We think the collaborative approach with our client, early engagement, we were able to simplify field architecture. This early engagement is critical when we're not bidding to a specification, use of flexible jumpers, greater well dispersion and equipment redesign, including the use of Subsea 2.0 technology to allow fast track installation. So we think Kaikias really does serve as one great example of what can be done when we can get involved early upfront in a fully integrated approach towards subsea development.

It's also a pretty critical milestone for TechnipFMC. With the delivery of this particular project and those that are still in our backlog, we've not only proven significant time and cost savings that can result from an integrated Subsea development for the project, but we've also set the template to achieve meaningful improvements in project economics for future projects.

So maybe a better look at the entire portfolio. We think TechnipFMC is uniquely positioned for 3 of the major energy growth platforms. As you can see highlighted on the slide, unconventionals, LNG and Subsea.

So if we can look past sort of what we believe to be a good solid 18 months of performance and look at the future, let's start with the unconventionals. Here, TechnipFMC, we're a leading supplier of consumables used in the development of shale resources. And these are obviously extremely instrumental in supporting our ongoing efficiencies for complex well completions. Over the last 12 to 18 months, that business has done a lot of work in integrating its ability to provide a comprehensive and integrated solution on the pad in North America as well as being able to reduce the cost of well completions all the way from high frac intensity through the completion on the well. And as I mentioned earlier, we've got -- we believe, back half of the year, some very strong performance, assuming volume activity continues.

I'll turn to Subsea for a moment here. I've spent a little bit of time already here this morning talking about iEPCI and 2.0, but we are demonstrating success with our fully integrated model through the introduction of Subsea 2.0 suite. We're in the early stages of that. We announced or launched most of the new Subsea 2.0 at the end of 2017. We had initially had a first manifolds and they are used on some of the projects that are in the current portfolio. But also our subsea trees, controls, that make the Subsea 2.0 suite a complete product offering.

So not only is weight and size reduced, but also its deliverability improving through our clients, our ability to reduce lead times to first oil, which we think is a critically important part of the cost reduction and making these projects economic.

Well, what about this integration and what about this model? We think, obviously, it drives sustainable improvements in project economics, but it really is what our clients are thinking. And we're seeing a tremendous support from our client base at various stages through our integrated approach and the acknowledgment from our clients about early engagements and technology enabled -- and the technology-enabled iEPCI model.

There's a lot of talk in the industry about integration. The benefits to the operator, really, we believe are highly dependent on the degree of project integration. You can certainly see from the chart the conventional methodology to what we would call a bundled approach to what we, TechnipFMC, can achieve as I shared with you on -- with the Kaikias field, getting involved early and upfront from iFEED through a full installation and delivery







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of the equipment. But the full integration requires early engagement. And our ability to optimize field design, we're able to remove interfaces and eliminate waste, which typically are where those costs build.

It requires having all of those capabilities under one roof to be able to manage those trade-offs that are typically inherent in optimizing solutions. We think this is the greatest value proposition for the client, and that for TechnipFMC, our ability to meet those project economics, and then, obviously, be able to optimize our margins as we continue to go through this cycle.

We know this friction because we experienced it when we were Forsys JV. And we saw that in those early stages and really became the impetus, if you will, for our willingness and desire to merge our 2 companies and come together as TechnipFMC.

The lack of a single, fully-integrated entity, plus the absence of early engagement, really provides a limited opportunity to achieve structural cost savings. Typically, what you're seeing is a bundled approach. But without the ability to provide the iFEED and the design change, the other contractors' ability to reduce cost is pretty limited compared to what TechnipFMC can do. Obviously, we can also pull risk off the table as we have greater visibility through the installation phase of the project.

We see the market moving more rapidly toward Subsea project integration, both in terms of a number of projects as well as the average project size. As they move, as these operators move further up that integration curve, which you can see highlighted on the chart here, we think there is much greater potential now and in the future to reduce cost and improve project economics, especially where we can influence lead time to first oil. And that's a critical piece of what we've been able to do, as I mentioned in Kaikias. We've demonstrated that through that project.

We've also been successful in securing a very large integration project -- integrated project, excuse me, Energean's Karish and Tanin project, which is the first all going all the way from iFEED to the host facility, enabling us to really capture a greater portion of that project scope.

We remain on track to deliver more successful references from our growing iEPCI project portfolio. We've seen a number of FEED studies increase -- the number of FEED studies increase by 90% -- almost 90%, from second quarter of 2017 to second quarter of 2018. And of that increase in the FEED studies, about 50% of those now have some level of iEPCI. And I say that because not every project is like a Karish and Tanin all the way from FEED to the host facility. But 50% of that growth in that portfolio has iEPCI. If you allow me to further -- we'll dissect to that population of projects, then another 50% of those actually now have 2.0 Subsea technology included in them as well. The important piece to understand about that, we believe, is this presents, if you will, a unique set of opportunities in this pool of iEPCI projects that are not on that list or certainly not all of them on that list of projects that we provide, showing what the large opportunities of projects, 250 million or greater present, and actually those that are smaller brownfields. So a unique opportunity set there.

So a little bit about Subsea demand. We clearly see Subsea demand growing. As we look at 2016, TechnipFMC, we said we believe that we've seen the inflection point for deepwater development. And we said that 2017 would see increased orders or order inbound for Subsea, and in fact, we saw a 27% increase in 2017. And again, we said in 2018, we expected Subsea inbound to grow as I shared with you on the first half of the year. You've seen those book-to-bills. You've seen that inbound. We've been fairly successful with that.

On the left-hand side of this slide here, we show you the demands in terms of final investment decisions, or obviously, FIDs, for large Offshore projects. In the chart here, we're only including projects that have reserves greater than 50 million barrels.

We illustrate this point because we think that FID is the earliest stage, really, where there is a measure that can correspond to the work associated with oil services group. They've been tracking FIDs, really, have been tracking fairly in line with Brent. And FIDs have returned to levels pretty similar to what we've seen when oil was about $100 a barrel.

If you look to the right-hand side of that chart, which you can see is Offshore capital expenditures broken out by year, we see that the trough in operator spending correlates pretty well with the FID chart with respect to market recovery. Keep in mind when we look at CapEx going forward, given what we believe to be sustainable reduction in the cost of deepwater development, we can do a little bit more now with a similar CapEx. So we think this is pretty supportive of where we see Subsea demand growing. And again, as I said, we have that pool of projects that also are supportive of the potential for this Subsea development to grow in addition to what we've seen in the past 6 months in terms of FIDs.

So I'll share with you a little bit more deeper dive into the Subsea business. As you can see from the headline here, we believe that 2018 is likely to be the trough for Subsea revenue. This chart is a depiction here for you, a backlog for Subsea and a proxy, if you will, of revenue for the coming year.

Takeaway from the chart, if you look at the second quarter 2017 compared to the second quarter of 2018, you can see a slight increase in the backlog that is executable for 2019. So as we see it right now, backlog executable in 2019, up over the same period last year. We add to that in similar fashion to what we saw this year, our Subsea services business. And here, you can see it's estimated to be about $1 billion for this year. We haven't given guidance for next year. And then, certainly, the order inbound, reiterate, we do believe that 2018 is going to be above 2017. So back half of the year should be strong.

So here what we're really trying to share with you is we do see the potential for 2018 to be the trough for Subsea revenues.

I'll move on to talk about the Onshore/Offshore business. Within the Onshore/Offshore segment, we really continue to see an improving set of opportunities in the LNG market. LNG, as you all know, is one of the fastest-growing markets in the oil and gas sector. To satisfy that demand, LNG projects will likely be sanctioned over the next 3 years and probably likely beyond that period as well. We believe that we are -- TechnipFMC is among a small number of contractors worldwide that has the ability to engineer and construct their critical liquefaction facilities across the globe. You can see by the chart our historical LNG leadership; our track record in LNG dating all the way back to the '60s, Qatar; and obviously, most notably, the project that we are working on right now, Yamal, in its -- completing its second phase and headed towards the third phase in 2019.

We think we've got an extensive list of LNG references that support our ability to participate in a fairly significant way in this growing market. We've developed over 20% of the global capacity installed, some 90 million tons of annualized production as you can see illustrated there. We think this demonstrates a clear leadership position.

Over the last 15 years, excuse me, the LNG market's tripled in size, from about 100 million to over 300 million tons per annum. And that growth is coincided with a new wave of megaprojects, most notably in their scale and technology and location. TechnipFMC and our partners have developed single site liquefaction capacity of nearly 8 million tons and have extended LNG opportunities to new frontiers, including the Arctic, specifically LNG. We add to our set of competencies, there also our ability to do modular -- modularization. Clearly, a pioneer in floating liquefaction and a leader in FLNG.

We delivered the world's first FLNG, the Satu Project, which is now successfully operating for Petronas. We're currently in the commissioning stage for Shell's iconic Prelude project, FLNG, the world's largest floating structure. We've had very good success in that project as well. And then, in 2017, we were awarded the Coral FLNG project for ENI, which is another significant development in Mozambique.

When we look ahead, obviously, we see that growing activity in LNG. And clearly, we believe LNG is a core competency for us. And we're a leading player for EPC and a technology provider in this segment. The next wave of LNG projects is moving forward as we see evidenced by current FEED work and tender activity. We're seeing projects emerging, really, in all regions, Middle East, Russia, Africa, Asia Pac, North America. And many of those include brownfield expansion projects, where we can benefit from an incumbent position on these projects.

Clearly, we think early engagement is the key to success on any of the projects. Earlier this year, we, in the quarter, announced a Sempra LNG Midstream project. And we, TechnipFMC, was selected as the EPC contractor for Energía Costa Azul, the LNG project which is under development in Baja, California. We'll perform the FEED and other preparatory activities there as Sempra advances toward FID.

In addition, the important FEED work for the Novatek Arctic LNG project continues to progress very well. There's been some recent discussions of that in the last couple of weeks as well. And we're beginning the FEED work on Nigeria LNG Train 7 expansion project. So again, LNG opportunity for TechnipFMC, pretty critical in terms of our ability to grow that business.

I'll share with you a little insight around Onshore/Offshore. As I mentioned, when we talked -- when I talked about the success year-to-date in inbound, Onshore/Offshore has had quite a bit of success with inbound activity. What I'd like you to note on the chart here, I'm sharing a similar picture here. You can see backlog that is executable at the end of the second quarter this year for '19, and I'm comparing that for backlog that was executable for 2018.

You can see just a minimal change, minimal increase. But what you really ought to notice here is that sort of bright orange area, which is Yamal LNG, has shown a dramatic reduction year-on-year in terms of the backlog that's executing. That shouldn't be a surprise. We know we're coming to completion. But the point here is backlog from the balance of this business improving. We're a little early in terms of making a revenue prognostication here for 2019, but important to see the base business is growing as the Yamal backlog is becoming a smaller portion going forward. In 2019, we'll take another step down for Yamal revenues. Not as large as we did in '18, but it will still be a piece of the Onshore/Offshore portfolio for 2019.

So a summary, if I might, about winning, and executing, and leading. We think much of this is attributable to our strong operational and financial performance. We've been pretty pleased with the uptake from iEPCI and winning there. In addition, not just iEPCI, but also on our Subsea side. We inbound over $8 billion in the last 6 quarters, and just about half of that actually came from projects that we didn't announce or Subsea services. So a very solid base in brownfield. And we see greenfield as we've shared with you in our project opportunity list, as we updated it in the second quarter, we took 5 projects off that were won, not all by TechnipFMC, but 5 projects that have moved forward. We added 6 projects to that list over the next 24 months, adding $1 billion worth of opportunities.

But as I mentioned, and we've said winning clearly isn't the only important element of TechnipFMC's success, we have to continue to execute and win customer confidence as we deliver that new integrated model. That uptake is improving, and projects like Shell Kaikias, like Statoil or Trestakk, like Energean's Karish and Tanin, will give us a very solid performance base as that pool of new iEPCI projects comes to fruition.

I'll highlight lastly our portfolio leverage to the major growth platforms as I've shared with you. In Subsea again, we think we're demonstrating real success as the industry's only provider, the industry's only provider of fully integrated solutions and services. There is a lot of discussion as I mentioned around an integrated approach, but we think TechnipFMC is uniquely positioned of giving the capabilities, excuse me, under one roof to provide the FEED capability, which gives us the option or the opportunity to influence field design, and then, be able to reduce lead times to first oil. We think it's a critical component of that cost reduction and that benefit.

In LNG, I just shared with you a set of core competencies. I shared with you a history, and what appears to be a growing set of opportunities that have some short-term and some midterm application for TechnipFMC. We've talked about our Onshore/Offshore business being a business in a post-Yamal world, a $5 billion to $6 billion of top line, with EBITDA margins of 4% to 6%. When we look at the opportunity set that comes from this new LNG wave, we can see this to be incremental to the opportunity set for Onshore/Offshore.

And then lastly, as we talk about unconventional resources, we've got products and services there that we believe are instrumental in supporting the ongoing efforts to gain efficiencies and continue to reduce costs, particularly where there are very complex well completions. It tends to be an area where TechnipFMC can excel.

So over the last 18 months, we think we've delivered financial performance. We think we've delivered an opportunity set in iEPCI where client uptake is increasing. We've got demonstrated examples of our ability to execute well, and we are well poised for what we believed to be 3 key growth opportunities. And our capabilities and technologies and our history here and client success, we think, bodes well for success in the future as we see these markets recover and grow.

And with that, I thank you very much for your attention.

## QUESTIONS AND ANSWERS

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

Thank you, Maryann. So I have more questions inside. Let me just ask one question. In terms of Subsea -- well, if I just kind of look at the Subsea market there, Subsea 2.0 has obviously been a big part to somewhat great fanfare at your Analyst Day, I guess, about 18 months ago. So in terms of the adoption of Subsea 2.0, can you talk about kind of maybe where your customers are with this? I mean, everything you said on paper makes total sense to everybody I spoke with. We all get it. So what is it that customers aren't quite getting? Or is it just time? Can you maybe just talk about maybe some of the hurdles of getting Subsea 2.0 adopted?

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**Maryann T. Mannen** - *TechnipFMC plc - Executive VP & CFO*

Yes. So I'd say it this way, David. First, we've been pretty pleased with the level of customer adoption and interest in 2.0 technology. So the first piece of equipment that we actually launched was a compact manifold. You saw that displayed at Analyst Day. And frankly, compact manifolds are now already in production and are on order. At that time, I think we had 11. At the end of the year, 2017 is when we actually introduced the remaining suite of 2.0 technologies, so trees and controls. Trees, in this regard, are obviously reduced weight as well and reduced parts. So when I talked about the FEED studies that we're seeing, half of those FEED studies associated with iEPCI now have a 2.0 component. So I do think we are gaining that momentum. And we expect that in the very near term, we've got projects that are coming close, we'll be talking about more projects under iEPCI that are announced as well as 2.0 component. So we think the adoption is happening pretty quickly.

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

All right. Let me ask you kind of a little bit of an off-the-wall question. So your customer base since the merger with Technip is, let's just say, largely half European, half U.S. And the debates that I have seems like there's almost 2 different debates that we have, one from a European perspective, one from a U.S. perspective. You're kind of in the middle. I hear you say both sides of that. So can you talk about is there frustration on your part that you can't get both investor bases aligned? Or can you maybe talk about the differences between the 2, what Europeans are looking for? What U.S. investors are looking for to it? Because I -- Mick and I are currently having this discussion amongst our kind of 2 different bases here.

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**Maryann T. Mannen** - *TechnipFMC plc - Executive VP & CFO*

Yes. Sure. So I'd try to answer the question in this way, David. I'd say when the company came together, we had knowledge basis from the investor community who obviously had deep understandings of each of the businesses that they followed for a long period of time. And so just a lack of understanding, perhaps. So we've been spending, and hopefully, it's been a helpful time as much as we can, really trying to educate the investors from the opposite side, right? And really trying to put forth what we believe to be an approach to help the investment community understand the value proposition that TechnipFMC presents. So trying to put together on a Subsea side the surf and the equipment side of the business to demonstrate why a fully integrated approach that is unique can make some sense and has made sense in the short term, even in this marketplace where the competitive pressures are severe. On the Onshore/Offshore side, as an E&C business, many of the U.S. investors had less familiarity with that business. I'm hopeful that given our ability to demonstrate our execution and performance over this period of time, that we have shown we have a good model for risk assessment around the E&C business. And I think that knowledge is becoming more widely accepted. If you look at some of the major key projects that we've done like Prelude, like Yamal, and frankly, some of the other smaller refining and petrochemical projects, our ability to deliver margin performance, being paid for the risks and executing well, I think, demonstrates that we understand the risks inherent in this business and we're trying to execute well. So yes, it's taken time to make sure that we're doing the best job that we can in understanding the opposite sides of those business.

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

Another success will then turn into confidence within U.S. investors, particularly on the E&C.

**Maryann T. Mannen** - *TechnipFMC plc - Executive VP & CFO*

I think that's right, David.

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

Okay. Maryann, thank you very much.

**Maryann T. Mannen** - *TechnipFMC plc - Executive VP & CFO*

Thank you.

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

All right. Maryann will be in the breakout room in [Riverside Suite]. Thank you.