

THOMSON REUTERS STRETEVENTS

# EDITED TRANSCRIPT

FTI.N - Q4 2019 TechnipFMC PLC Earnings Call

EVENT DATE/TIME: FEBRUARY 27, 2020 / 1:00PM GMT



## CORPORATE PARTICIPANTS

**Catherine MacGregor** *TechnipFMC plc - President of Onshore/Offshore*

**Douglas J. Pferdehirt** *TechnipFMC plc - Chairman of the Board & CEO*

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

**Matt Seinsheimer** *TechnipFMC plc - VP of IR*

## CONFERENCE CALL PARTICIPANTS

**Amy Wong** *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

**Angie Sedita** *Goldman Sachs Group Inc., Research Division - Research Analyst*

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

**James Evans** *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

**Kurt Hallead** *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

**Lillian Starke** *Morgan Stanley, Research Division - Research Associate*

**Mark Wilson** *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

**Sean Meakim** *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

**Vebs Vaishnav** *Scotiabank Global Banking and Markets, Research Division - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the TechnipFMC Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) Thank you. I would now like to hand the conference over to Matthew Seinsheimer. Please go ahead.

---

**Matt Seinsheimer** - *TechnipFMC plc - VP of IR*

Good afternoon, and welcome to TechnipFMC's Fourth Quarter 2019 Earnings Conference Call. Our news release and financial statements issued yesterday can be found on our website. I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements.

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

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you very much, Matt. Good morning, and good afternoon. Thank you for participating in our fourth quarter earnings call.

2019 proved to be a year of significant growth for our company. We achieved an unprecedented level of inbound in the year equaling \$22.7 billion, representing order growth of nearly 60% versus the prior year.

Our success was driven by an acceleration in the market adoption of our new Subsea technologies, our integrated subsea model, iEPCI, and continued strength in both LNG and downstream project sanctioning.

In Subsea, full year inbound of \$8 billion grew more than 50% versus 2018. This was the highest annual growth rate for our company in over a decade and more than 2X the industry's growth.

This growth was driven by iEPCI with our award value more than doubling prior year levels and accounting for more than 40% of total inbound orders. iEPCI is no longer just an alternative commercial model. It has become the model of choice for most of our customers.

In Onshore/Offshore, inbound orders grew almost 80% versus 2018, driven by more than \$8 billion in LNG awards. This included the Artic LNG 2 contract from Novatek, which builds upon the success of Yamal LNG.

We were also part of the winning consortium on ExxonMobil's Rovuma LNG project, although we recorded limited inbound value ahead of the project FID expected this year.

Total company backlog now stands at \$24.3 billion, an increase of 67% from the same time last year. Backlog grew across all segments, with Onshore/Offshore increasing almost 90% versus 2018. Importantly, over half of our total backlog is scheduled for execution beyond 2020, providing us with unrivaled visibility.

Total company revenue in 2019 exceeded \$13 billion, benefiting from higher activity across all segments. Full year Subsea revenue increased 14% in the year, led by 15% growth in Subsea services and an increasing mix of integrated project activity.

2019 also marked the trough for segment revenue in Onshore/Offshore. We have seen the revenue inflection and have now experienced three consecutive quarters of sequential revenue growth. And when excluding Yamal LNG, total segment revenue increased more than 25% versus 2018, demonstrating solid growth and diversity in the remaining businesses.

And in Surface Technologies, we experienced growth of more than 15% outside North America. Our international business now accounts for more than half of segment revenue. This strong growth more than offset the decline in North America, with the total segment delivering a modest revenue increase.

Now let me turn to our market outlook and segment guidance for the coming year. Starting with Subsea, we anticipate ongoing momentum in activity for small to midsized brownfield projects and a continued healthy outlook for greenfield projects. Activity continues to be driven in part by emerging markets such as Mozambique and Guyana and strengthening activity in important markets such as Brazil and Africa.

We also anticipate that Subsea Services will again experience double-digit revenue growth, driven in part by digital monitoring services, well intervention and asset refurbishment activities. This strength in both project activity and Subsea Services provides the framework for 2020 Subsea orders to approach the level achieved in 2019. However, this remains dependent upon the timing of one or two major project awards.

Turning to Subsea guidance. We see revenue in a range of \$6.2 billion to \$6.5 billion and adjusted EBITDA margin of at least 11%. In the first quarter, we expect to see normal seasonal impact with margin improvement over the remainder of the year due to project timing and increased asset utilization.

For Onshore/Offshore, we remain confident that additional LNG projects will be sanctioned in the near to intermediate term. The outlook for long-term demand requires this additional capacity. And just this morning, Sempra Energy announced the selection of TechnipFMC as the EPC contractor for their Energia Costa Azul LNG project. We are very proud to have been chosen for this strategic development.

Beyond LNG, we continue to selectively pursue refining, petrochemical and biofuel project opportunities in Europe, the Middle East, Asia and North America, particularly where we can benefit from early engagement or leverage our process technology portfolio.

For Onshore/Offshore guidance, we see revenue in a range of \$7.5 billion to \$7.8 billion and adjusted EBITDA margin of at least 10%, reflecting a lower contribution from Yamal LNG and an increasing contribution from projects in early stages. This guidance includes the impacts that we can estimate at this time for the coronavirus.

In Surface Technologies, we anticipate double-digit revenue growth outside of North America, driven by market activity and supported by our high tier products and technologies. This growth serves as a strong foundation to our outlook as our international franchise makes up more than 50% of total segment revenue. We anticipate North America activity to decline 10% versus 2019, which assumes an improvement in drilling and completions activity in the second half of the year.

For Surface Technologies guidance, we expect revenue in a range of \$1.4 billion to \$1.6 billion and adjusted EBITDA margin of at least 12%.

Maryann will cover all other guidance related topics later in this call. In addition to this tremendous commercial success in 2019, we have been taking actions to better position ourselves for 2020 and beyond. The announced separation of our company is a bold visible step in this regard. But only represents one aspect of the transformation that is taking place in our company.

In Subsea, we are further optimizing our organization. To maintain market leadership, you need a combination of innovative technologies, fit-for-purpose assets and global execution capabilities in order to deliver an integrated value chain.

Part of our optimization efforts are focused on our assets, ensuring that we have the right assets with the right partners in the right geographies. And to achieve this, we will continue to right-size and reallocate our assets to better align with the advantages of new technologies such as Subsea 2.0 and integrated project delivery. And we are also forming new strategic partnerships as demonstrated in our recent announcement with Allseas that can provide us with access to unique assets in a more capital-efficient manner.

These actions will lower our operating and capital costs and increase asset utilization. And when coupled with the accelerating adoption of our next generation Subsea products and technologies, they can help our customers reduce cost and cycle time for greater efficiency.

In Surface Technologies, we will leverage the strength of our international franchise in order to capitalize on the growth we anticipate in the Middle East, Asia Pacific and the North Sea.

In North America, we continue to transform our business by working with our customers to further drive wellsite operational efficiencies and lower greenhouse gas emissions. We are optimizing our services in operating geographies and when the economic returns don't make sense, we will look to exit rather than simply optimize to the status quo.

And in Onshore/Offshore, which will very soon become Technip Energies, we are transitioning into a new growth cycle, one that is underpinned by the strength of more than \$15 billion in project backlog. Our global teams have successfully executed complex projects in some of the most remote regions, and we will continue to leverage this experience and intense focus on the work that lies ahead. And we will remain selective in our project choices focusing on those prospects that offer the best opportunity for success for both our customers and TechnipFMC.

As you can see, we are taking actions across all of our businesses. Importantly, these initiatives are supportive of our strategy focused on market leadership and business transformation.



2019 was another transformational year for TechnipFMC. In August, we announced we would further reshape our future through the separation of our company into two industry-leading, diversified pure-plays. The spin-off remains on track for completion in the second quarter. As we have also shared, our new company, Technip Energies, plans to host a Capital Markets Day in Paris ahead of the transaction close.

In 2019, we reinforced our position as the only fully integrated technology and services company. In Subsea, we exceeded 100% growth in iEPCI inbound, driven by an acceleration in the market adoption of our integrated model. iEPCI, which served as the catalyst for the merger, accounted for more than 40% of the total Subsea inbound orders in 2019 and has become the model of choice for most of our customers. When combined with double-digit growth in Subsea Services, we delivered full year Subsea inbound of \$8 billion, an increase of more than 50% versus 2018.

And in Surface Technologies, we grew more than 15% outside of North America when compared to the prior year, with international revenues now accounting for more than half of the segment revenue.

Our significant growth in backlog across all segments validates our strategy and provides us with confidence in our outlook. We continue to demonstrate our global leadership in subsea, LNG and the international surface market.

I will now turn the call over to Maryann to further discuss our financial results.

---

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

Thanks, Doug. Total company revenue in the fourth quarter was \$3.7 billion, with adjusted EBITDA of \$404 million. Fourth quarter cash flow from operations was \$559 million. Adjusted EPS was \$0.03 in the quarter, when excluding after-tax charges and credits of \$5.43 per diluted share.

The total after-tax charges and credits largely reflect noncash goodwill and asset impairment charges of \$2.3 billion, which we disclosed earlier this month and are detailed in our earnings release: a valuation allowance of \$108 million impacting the tax provision, separation cost of \$47 million, and a net restructuring credit of \$1 million, which included a gain of \$83 million in Subsea related to the consolidation of a PLSV joint venture. These charges reflect the specific actions we are taking to better position our company for 2020 and beyond, as Doug outlined in his remarks.

Included in our adjusted earnings are items for which we do not provide guidance, including an expense resulting from increased liability to joint venture partners of \$0.22 per diluted share and foreign exchange losses of \$0.13 per diluted share. The F/X impact, which is included in corporate expense, was almost entirely driven by the significant devaluation of the Angolan Kwanza in the period. These two items impacted our adjusted EPS by \$0.35 in the period, and if excluded, our adjusted EPS would have been \$0.38 per diluted share.

And lastly, with regard to internal control, we have fully remediated all previously disclosed material weaknesses. This will be reflected in our upcoming annual filings.

Turning to the operational highlights in the quarter. Subsea delivered fourth quarter revenues of \$1.5 billion, a 21% increase versus the prior year quarter. We experienced double-digit growth in both project and services activity in the period.

iEPCI project activity continues to represent an increasing share of revenue, reflective of the well-established market trend towards integrated project development.

The increase in services revenue was driven by higher installation, well intervention and asset refurbishment activities. Subsequently, Subsea Services revenue was essentially unchanged despite the seasonal impact of weather. And adjusted EBITDA for Subsea was \$185 million, with a margin of 12.4%. Adjusted EBITDA improved modestly from the prior year as cost reduction activities and project completions offset the impact of a more competitively priced backlog.

Onshore/Offshore reported fourth quarter revenue of \$1.8 billion, an increase of 10% from the prior year quarter, primarily driven by higher activity. Adjusted EBITDA was \$260 million with a margin of 14.2%. Operating results in the period benefited from the strength in execution across the portfolio.

And finally, in Surface Technologies, revenue of \$408 million was down 2% versus the prior year, while sequentially we saw modest improvement as we benefited from the strength in international markets, offset by the lower North American activity. Sequentially, adjusted EBITDA margin of 13.7% increased 250 basis points and reflects the benefits of a higher international mix of business and cost reduction activities.

Turning to cash, we have now generated positive operating cash flow for six consecutive quarters. In the fourth quarter, we recorded [\$559 million] (corrected by company after the call) of cash flow from operations, some of which resulted from the timing differences between project milestones and vendor payments. Operating cash flow was \$849 million for the full year.

Beyond the operating line, capital expenditures were \$86 million in the period. Our full year spend was \$374 million when excluding the \$80 million impact of the sale-leaseback transaction for the Dive Support Vessel we recorded earlier in the year. We paid \$58 million in shareholder dividends in the quarter, and for the full year, we made \$233 million in total dividend payments. Additionally, we made a distribution of \$119 million to the Yamal joint venture partners. We ended the year with \$5.2 billion of cash on hand.

Now I would like to provide additional details around our 2020 financial guidance. With regard to our revenue guidance, please note that the segments reflect the new business perimeters as reflected in our separation announcement. Businesses with approximately \$120 million of revenue in 2019, most of which came from Surface Technologies, are now included in our Onshore/Offshore segment in 2020.

Let me highlight the revenue coverage from backlog. In Subsea, at the midpoint of our guidance, approximately 71% of our anticipated 2020 revenue is expected from backlog scheduled for execution in the current year. We anticipate the remaining revenue, approximately \$1.8 billion, will be met by book and turn activity from both Subsea Services and projects. Subsea Services revenue is expected to exceed \$1 billion in the year. Only a modest amount of this revenue potential is in backlog today and most services orders quickly convert into revenues.

In Onshore/Offshore, backlog supports approximately 86% of our expected revenue for 2020 at the midpoint. We anticipate approximately \$400 million to \$500 million in revenue from Yamal LNG.

Turning to the remaining guidance items for 2020. We expect corporate expense, net to be \$180 million to \$190 million for the full year, when excluding the impact of foreign currency fluctuations. We expect net interest expense of \$80 million to \$90 million for the full year, when excluding the impact of revaluation of partners' mandatorily redeemable financial liability. The increase from the prior year is largely the result of lower interest income associated with the company's cash balances. We forecast a full year tax rate in the range of 28% to 32%. Capital expenditures for 2020 should be no greater than \$450 million. And, we expect cash flow from operating activities to exceed \$1 billion, with the back half of the year being a little stronger than the first half.

In closing, Subsea revenue benefited from increasing activity in both projects and services, while order growth reflected the acceleration in market adoption of our new subsea technologies and integrated subsea model. Onshore/Offshore revenue has clearly inflected from the 2018 trough, as evidenced by the achievement of our third quarter of sequential revenue growth. While in Surface Technologies, we continue to leverage the strength of our international franchise. Lastly, we generated nearly \$850 million in operating cash flow in [2019] (corrected by company after the call), with positive results in all four quarters.

Looking ahead, we begin 2020 with more than \$24 billion of secured backlog. We have strong revenue coverage for the year in both Subsea and Onshore/Offshore. We see revenue growth in all three segments at the midpoint of our revenue guidance range. As importantly, we are proactively taking actions across all our businesses in support of our focus on market leadership and continued business transformation. And in 2020, we expect operating cash flow to exceed \$1 billion.

Operator, you may now open up the call for questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from James Evans from Exane BNP Paribas.

---

### James Evans - Exane BNP Paribas, Research Division - Analyst of Oil and Gas

First one is actually on Surface. Obviously, a decent Q4, the guidance is pretty good, quite high restructuring charges. I just wondered if you could give us a little bit more detail there on what you're doing to drive improved performance as we head into next year? And what the ultimate size of the opportunity is?

And secondly, around Subsea, I mean, I think the guide for 2020 is maybe a little bit weaker than had been expected. I mean can you just clarify any reason for the deviation? And just actually an update on comments on the external environment, things like pricing, et cetera, and also, just the gap between margins on integrated awards and normal awards and when we see that benefit really coming through your business in the results you deliver?

---

### Douglas J. Pferdehirt - TechnipFMC plc - Chairman of the Board & CEO

James, I think that set the record for the most questions packed in a short period, thank you very much. I think I captured four, if not five there. What I'm going to do is, I'm going to walk us a little bit through the Subsea margin guidance because I actually think that will, in some ways, address most of the other parts of your question, and quite frankly, maybe is the most prevalent and what is most new at this point. And if you don't mind, James, I'm going to take just a little bit of time on this, and I think it's important that we kind of walk through the progression of this cycle and what ended up resulting in our 2020 guidance.

So as you know, for TechnipFMC, we had tremendous inbound order growth of more than 50% in 2019. And by the middle of the year, following the very robust orders of the first half, our integrated projects or iEPCI was representing more than 50% of the total Subsea orders. And at that time, I stated my confidence that 2019 would likely mark the margin trough at the time. However, I also noted that 2020 would be a transition year, with the main outstanding question for us being more about the progression of the margin improvement.

If we go back to what we talked about a few times, as an iEPCI company and the only integrated company, we have the benefit of being involved in the whole life cycle, but that also means that the conversion of the inbound or the orders into revenue happens over a longer period of time. So again, we first have to design and build the equipment and this takes 18 to 24 months before we can install and commission, which can take up to another 18 months. Meaning that the orders from the first half of 2019 won't really drive margin improvement until late 2020 and beyond, as I had stated in earlier calls.

I've also said the inception of the integrated business model that we will continue to prioritize our assets for these iEPCI projects and for our alliance partners. This was quite important as it has been a very competitive period when bidding only day rate contracts on vessels. And while I was clear that this strategy would result in lower utilization during this period we ultimately will benefit from a higher quality backlog, driven by direct awards from both our alliance partners and those that we convert from integrated feed to iEPCI projects. And we now have delivered on the first part of this strategy as evidenced by the strength of our 2019 inbound.

Our Subsea guidance that was issued last night is also consistent with this message. And while it is still possible that 2019 was the absolute margin trough, the significant ramp in activity we are experiencing not only impacts our company directly, but also our suppliers in the supply chain in general.

The elasticity of the supply base has not proven to be as robust as that of our own company. Therefore, we are experiencing incremental costs to strengthen our supply chain. These efforts are well underway. As these transitory costs come down and as we move further into the offshore campaigns, we remain confident in our ability to achieve or exceed our stated guidance, driven in part by the higher utilization of all of our assets.

It's important to emphasize our strategy and outlook remain unchanged, and we are confident we will deliver double-digit revenue growth in 2020, and we will remain confident that we will deliver margin expansion over the coming years.

With that, I'll pass it to Maryann to talk a little bit about the restructuring charges that we have announced today.

---

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

Sure. James, thanks. I think your first question was referencing the restructuring charges in North America, as you've probably seen, we've recorded about \$37 million directly attributable to Surface. You heard Doug say we're taking a very focused approach in ensuring that we are exiting businesses and product lines where we are not meeting the profitability there. So that charge that we recorded in the quarter represents the exit of certain product lines and certain headcount reductions. And as you can imagine, that is largely North America related, so that we see performance improvement deliver the margin improvement and the success that we are focused on for 2020. So that's what you're seeing being recorded in the third quarter, again, largely attributed to North America.

---

**Operator**

Your next question comes from Angie Sedita from Goldman Sachs.

---

**Angie Sedita** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

So I appreciate the detail on the Subsea margin, Doug that was really very helpful. But maybe if we could ask a little bit more on that on the comments you said to strengthen your supply chain, which is obviously very fair, is that an occurrence that we'll see only or predominantly in the first half, and in the second half, we could see a larger ramp with both the awards you saw in '19 and the elimination of those additional costs? Maybe talk us through 2020 and going into '21 on that margin ramp?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Sure, Angie. So maybe an analogy I could use is, we came out of the gate really, really strong. And again, our growth in 2019, we doubled the industry growth. So okay, that could be translated into, obviously, an expansion in our market share. And all of that combined at the same time, has to trickle through the supply chain, if you will. We've been working with the supply chain. We've resolved most of the matters, we're very well advanced. I don't want to leave any doubt, and I appreciate the follow-up question that the matters are well under control.

I'm just pointing to the fact of going back to almost 9 months ago now and the comments about 2019 being the trough in the margin and where we came out with the guidance, which was, I think, just a small rounding error below that, was really just to emphasize and put a little bit of color around what's actually happening. So to your question, yes, we'll have the normal seasonal activity, decrease in activity in the first quarter. There's no way around that, that just has to do with certain geographies at which there's very little subsea activity because of the sea conditions in the first quarter. But we would expect to see a ramp then through the end of the year and an exit rate that would be more reflective of the type of margins that we will be able to generate from this much high-quality and high level of inbound that we had in the first half of 2019.

---

**Angie Sedita** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. Very helpful. And then, if you have any color on the exit rate, feel free to share? But then I would also ask on Subsea orders and the outlook for -- I mean, obviously, you had a very impressive year in 2019 on iEPCI. And if you could talk about the opportunity set for iEPCI in 2020 as far as total and as a percentage of inbound orders? And then you made the remark, of course, that Subsea orders could approach 2019 levels, but it's dependent upon one or two major awards and maybe if you can give us some further color there?



**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. In terms of the iEPCI, the way I look at it, Angie, is it's just our way of doing business going forward. So I think that we've somewhat established that. And I believe even the rest of the industry is now acknowledging that, which I guess is somewhat flattering. Where we go in 2020 versus 2019, I see no reason why the percentage of iEPCI would not be at a similar or a greater level than it was in 2019. Again, we have a very healthy portfolio of integrated FEED studies. It's important to remember that when we convert those integrated FEED studies to integrated EPCI projects, these become direct awards to our company. We also have an expanding list of exclusive iEPCI alliances. We added two more in 2019 with two additional customers, meaning 100% of their subsea work is coming to us through our new integrated model.

So with that, I would expect, over time, as we've clearly demonstrated in just two years from zero to close to 50% of our business being integrated, a trend that is very likely to continue, not just for us, but eventually for the rest of the industry as well.

So I think that continues to look quite strong. In terms of the absolute order level, always hard to state at this point in the year, and we don't give absolute guidance on order intake. It's very difficult, given the size of our projects and the difficulty to time them within a particular 12-month period but what we do show is an opportunity set over the next 24 months. We publish that, we update that regularly. It remains robust. But I remind you that a large percentage of our awards don't show on that list. That is the projects that are, let's say, publicly available to us and to our competition or some of our competition that would qualify to do that work. We have that exclusive set of proprietary opportunities, again, from our alliance partners or from the integrated FEED studies that can turn into direct award iEPCIs if we reach a certain project economic threshold that benefits both the client as well as ourselves, typically driven by an accelerated time to first oil.

When we look at it, and that's the reason I made the comment I did, yes, 2019 was a very robust year. Obviously, we'd have to continue to have a very strong year and would have to have some things go right in 2020 to be able to match that level of order inbound. We had some billion dollar plus awards in 2018 and in '19. We may not see those billion plus awards in 2020, although we do have a portfolio of large opportunities that if they all came together, and the timing all happen by the 31st of December of 2020, we could be in a very similar range as we are going forward from 2020 versus 2019.

---

**Operator**

Your next question comes from Lillian Starke from Morgan Stanley.

---

**Lillian Starke** - *Morgan Stanley, Research Division - Research Associate*

I just wanted to see if you could provide a bit of color on the operating cash flow guidance? I recognize some of that may be partly driven by cash advances that you might expect from clients, but I was just wondering if there's also any underlying improvement that you're seeing on your own working capital dynamics?

And then the second question I had is, on the back of what we're seeing on the coronavirus, is there anything -- I know you are working with certain Chinese errands. Is there any delays or any concerns at this point in time?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Okay. Sure. So thank you, Lillian. I'm going to make a comment around the coronavirus, and then I'm going to pass it to Catherine MacGregor who's with me and as you know, is the CEO-elect, for Technip Energies and has been very involved and is currently the president of the GBU for Onshore/Offshore and is very involved in those projects. So I'll let her add some additional color. And then Maryann will add some additional color around the cash flow comment that you made, which I appreciate you pointing it out. We're very proud of the progress that we've made, the continued progress that we've made and a good progression and just remind you that we are a business of projects, and there will always be new projects coming in and projects closing out, and we are very pleased with the trend of our cash flow and the projections that we were able to share for 2020.

Just in terms of the coronavirus, look, first and foremost, we are deeply concerned for those who have been impacted. We are very much monitoring the situation and have put in place the appropriate actions to try to ensure the health and well-being of all the 37,000 women and men of our company and the many, many more contractors that we work with in the various sites and the various projects around the world. I'll let Catherine, again, put some additional color around maybe an example or two of what's actually happening on the projects.

---

**Catherine MacGregor** - *TechnipFMC plc - President of Onshore/Offshore*

Yes. Thank you. And indeed, we are, in light of the context of the coronavirus, working very actively, and I would say, collaboratively as well with our customers, but also with our subcontractors and with our partners to make sure that we take appropriate measures to really mitigate the impact on our projects. So what we've said is that the guidance that we gave you on Onshore/Offshore reflects what we see today as the impact of the coronavirus. So to give you a little bit of example of some of the things we're doing, again, working very collaboratively with our customers and with our suppliers in one of our projects, for example, we were able to transfer some engineering hours from one of our Chinese-based subcontractor to one of our operating centers.

In another project, some orders were placed or were diverted from a Chinese supplier to European-based supplier. And we have a number of actions like this that we are able to take again working as proactively as possible with our partners, suppliers and customers.

---

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

Lillian, Maryann here. Maybe just a little more color around the cash flows. And again, thanks for your question. I think you know, and certainly, given the backlog that we have and the significant project component, our objective is certainly to be cash flow positive or at a minimum cash flow neutral against the entire portfolio. So I think what you see happening as we continue to execute along that backlog is that continued improvement, and certainly, working capital is a piece of that.

---

**Operator**

Your next question comes from Sean Meakim from JPMorgan.

---

**Sean Meakim** - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

So maybe to follow-up on the cash flow guidance. On a traditional basis, implied more than \$500 million of free cash flow sounds very positive. Can you maybe just put some parameters around the influence of prepayments on LNG awards, a little more granularity with respect to working capital? And then just how you see the impacts of cash from financing with the MRL in 2020 on cash?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Sure, Sean. So again, I'll pass to Maryann to provide the more detailed answer, but I just think it's important that we are a projects business. We will always have new projects coming in and advanced payments, as you well point out, from those. But we also gave 2020 cash flow guidance. So I think what you'll be able to see very clearly is the continued improving trend that is also reflected in our guidance. Maryann?

---

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

Sure, Sean. And maybe a little more color around the MRL, I think, as you asked there. And you know you can actually see it when we produce the 10-K, but our MRL today sits at about \$300 million. So at a minimum, assuming no other further changes on the project, that outflow will happen to the partners at the time at which both TechnipFMC and its partners decide for that payment to happen. So that happens in the financing section as you well noted, but that outflow will happen.

I think the second part of your question again was around working capital, and we certainly won't try to get as granular there. But as you know, a big piece of the changes in 2019 were, and as we talked about that, the big outflows that we saw from Yamal as we continue to progress toward completion of that project, I think you can expect that the outflows from Yamal will be much less in 2020 than they were in 2019.

---

**Sean Meakim** - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. That's very fair. And then Doug's comments were interesting when he mentioned the supply chain not proven to have the elasticity of your company, and that's led to some incremental costs that are perhaps transitory, does any of that carry into the CapEx budget for 2020? I was hoping we could maybe get a little more granularity of that \$450 million that you're planning for this year?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Thanks, Sean. No, not directly from the supply chain considerations. The capital budget, what you'll see reflect the capital budget, is those incremental commitments we made that are part of particularly the large Subsea projects. So when it's a greenfield project, and we are providing the full iEPCI, including the life of field contract, which we call ILOF or integrated life of field contract, most of those come with a certain level of capital expenditure in order to support a 15, 20, 25, even 30 year life of field Subsea contract. And if you think about it this way, that's kind of the tooling in the assets that are required to go out if there is any need to be able to recover, for inspection, for repair, for monitoring services associated with those subsea installations.

---

**Operator**

Your next question comes from Bertrand Hodee from Kepler Cheuvreux.

---

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

Two questions, if I may? One on the Subsea margin. Thank you, Doug, for providing kind of the main moving part, but can you quantify what is the impact of those supply chain incremental costs you're seeing for 2020? And also, can you give us some guidelines around the utilization rate of the vessels you expect for 2020? And then I will have a follow-up question on the coronavirus.

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Okay, sure. Thank you, Bertrand. So let me cover the first one, which was to quantify the impact of the supply chain. Look, I think it's, again, I want to make sure it's very well understood. It's well under control. We took these orders in the first half of 2019. We started placing the orders with the supply chain during the first half of the year. We have a complete understanding. This isn't a new discovery. We have a complete understanding of what's happening and we took that into account and reflected that in our guidance. So hard to quantify the exact impact. But I guess, you can tell by the guidance level that we provide, it's not a huge number. And it's well under control which is why we were able to provide the guidance and the confidence that we have in the guidance for 2020 of at least 11%.

In terms of the guidelines around utilization, again, we don't really see utilization improving much until the second half and really not until 2021, 2022, and that's when we'll see a meaningful impact in the overall improvement of the utilization of the fleet tied to those iEPCI awards.

---

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

Okay. And then the follow-up question on the coronavirus. So if I understood well, your guidance in Onshore/Offshore already include some of the impact that you can estimate at this time for the coronavirus. Can you help us understand what was this impact that you've currently included? Is it potentially in terms of revenues being deferred or in terms of margins?



**Catherine MacGregor** - *TechnipFMC plc - President of Onshore/Offshore*

Yes, Bertrand. Obviously, we're not quite ready to give you a number because what we've done is that we looked at product portfolio and on the aggregate estimated the impact on some of the internal milestones that we could see moving and made the judgment to give you the revenue guidance in 2020 to really integrate all of this impact. So we won't give you, and we don't have breakdown. But at this stage, and I think you've summarized it very well, that our current view of our revenue, the guidance we gave you integrates the impact that we see today of the virus.

**Operator**

Your next question comes from Vaibhav Vaishnav from Scotiabank.

**Vebs Vaishnav** - *Scotiabank Global Banking and Markets, Research Division - Analyst*

I guess, I was trying to expand on Sean's question, so can you help us think about the \$450 million of capex. What are the bigger buckets, you mentioned life of projects, but if you can expand more on that and boats, and what are the other typical bigger buckets?

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. I'll provide you some additional color. So there's a certain level of maintenance capex associated with the existing asset base, both the manufacturing assets as well as the fleet. The increment and the only increment that you're really seeing is tied to that tremendous inbound growth that we pointed out in 2019 and the continued investment to support the growth rate of our Subsea Services business, which as I pointed out grew substantially in 2019, and we expect it to repeat in 2020.

**Vebs Vaishnav** - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And I guess, you have talked about owning boats as being not essential for the Subsea business. Can you talk about what are your latest thoughts if there is a way or if you have any thoughts around divesting that piece of the business?

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Well, I think the whole industry needs to restructure and really get focused on driving through cycle returns, not just peak returns. And in order to do that, we have to look at the capital structure of our industry, and we have to look at the capital structure of our individual companies. As in many other attributes, particularly in the Subsea business we believe that we are leading by example. So you know we took some very decisive moves. We announced some asset sales during the last year, and we announced a very important partnership as well with Allseas, and we will continue to look at ways that we can work collaboratively with anyone, anyone at all, in order to ensure success for the industry going forward, and once again, make it a very attractive place for the investment community to put their money because of the type of margins that we'll be able to demonstrate on a through-cycle basis.

If we keep looking at it individually as to the own size of our assets, regardless of what type of assets they are, we tend to end up in a situation where the industry is overcapitalized and we don't generate the type of returns that are required.

So look, we are very open to working with anybody, and we have demonstrated that, and we will benefit from that in terms of the type of returns that we'll be able to generate because of that type of behavior.



**Operator**

And your next question comes from Mark Wilson from Jefferies.

---

**Mark Wilson** - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

I'd like to ask about an update on the Brazil riser situation. And I think there's a third situation flagged by Petrobras. Could you just give us an update there, Doug, and Technip's involvement in it?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. So the issue, as we know, is there's a phenomenon called stress corrosion cracking. It happens when a few conditions are met. Those conditions are very prevalent in the pre-salt reservoirs and the pre-salt composition of the hydrocarbons that are produced. And therefore, we see an accelerated rate of stress corrosion cracking in that environment. Why am I emphasizing that? This is a well-known physical phenomenon. It happens anywhere where they're steel placed in a certain condition where this type of event can occur. By the way, a standing structure, a bridge, if you will, made out of steel is experiencing stress corrosion cracking. It's absolutely well-known and understood.

When the pre-salt was developed because of the high CO2 content and the fact that a flexible riser when the annulus is flooded, can accelerate that phenomenon. So it's a well-known phenomenon. It just becomes accelerated. So look, this is an industry phenomenon. We are, obviously, the leader in the flexible pipe, both technology and certainly in the installed base and continue to be.

So we've been working very actively, actually, with industry, but very much directly with Petrobras at making sure that we could clearly understand the phenomenon in this condition and then be able to model it so that we could predict the, let's say, the impact of the effects of distressed corrosion cracking, whilst at the same time and in parallel, developing solutions that will be more resistant or even stress corrosion crack -- SCC, if you will, stress corrosion cracking free. And that's what we're doing. So it's multidimensional as I'm pointing out.

We are well advanced on the first element, which is now being able to model and predict and working very closely with Petrobras on that. So it's a combined issue, and it's now a well-understood issue, and we're able to model it.

At the same time, we're developing the solutions hand-in-hand with Petrobras. And we're very pleased. And more importantly, they are very pleased with the progress that we're making. We just had a review on the subject matter two weeks ago with the Petrobras leadership team, and we'll continue to work with them in an open and collaborative way to solve this industry phenomenon and ensure that we will have a product that they'll be able to use across their portfolio because it's important to understand what we're really talking about is a small application of flexible pipe. If you look at the total amount of flexible pipe sold, this is a very small portion of that total market that is impacted. It's not all of Brazil, it's not all of Petrobras, it's not all of pre-salt. It's in a very specific isolated situation. That being said, we're committed to solving it, as I pointed out and are making good progress in that situation.

In regards to the rest of the business around our flexible product line, it continues unchanged, if you will, and continues to be quite robust.

---

**Mark Wilson** - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Excellent. And then one short follow-up for Maryann, just in 4Q cash build, it's about \$400 million of additional contract liabilities came in the working capital, I just wondered if you could give a split between Subsea and Onshore/Offshore for that?

---

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

So the cash flow change in the quarter, as you pointed out, is largely driven by the change in contract liabilities. And as you know, we try not to be so segment-specific. It gets to a level of granularity. But if you think about some of the major moves in the projects, and you can think about how



they might be as we're progressing through in the early stages, both Doug and Catherine have talked about that, it might be helpful. But certainly, milestone payments, as I mentioned, we try to stay ahead of that cash flow curve, and that indicates, obviously, we've got work to complete. You can think about the size of some of the major projects that we've announced recently, and that might help in the thinking about the separation between what's Subsea and Onshore/Offshore.

---

**Operator**

Your next question comes from Amy Wong from UBS.

---

**Amy Wong** - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

A couple of questions from me, please. The first one is just a reference to your tremendous success on winning integrated SPS and SURF projects. The industry seems to have embraced this solution and yourself and another big competitor seems to be mopping up a lot of the market share. So can you talk about what other competitors are doing, are reacting to this seemingly increasing take-up of integrated solutions? And how they could try to compete with you on that front?

And then my second question is bigger picture, just can you talk more in general about your technology leadership in Subsea? You touched on your Flexible 2.0 program. But I also want to understand some other emerging technologies such as a 20K play. How important will this technology be for you to sort of maintain or even start to win more market share as the tendering pipeline progresses?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Thanks, Amy. And look, I'll be brief on the first one on what is the competition doing around iEPCI. I'm sure they're talking about it. I'm sure they're trying to figure that out right now. It's not evident to me what they're doing, but what is clearly evident is this is the way that the market is going. We're real thankful that in 2016 we had the vision. We're even more thankful that in 2017, we completed the transaction and, obviously, most thankful for the recognition by our clients in the amount of over \$7 billion of integrated awards that they've given us thus far, the vast majority of those being direct awarded to our company. So we're just very thankful for the situation we're in.

In regards to technology leadership in Subsea, it's obviously one of the important elements. The commercial model has been hugely successful. But the ability to be able to merge that with a technology program that not only drives the expansion of the Subsea market in an example like 20K that you pointed out, which is very important, indeed. It also can fundamentally change the way that we conduct our business or our operating model, both in terms of our physical footprint as well as in terms of our assets.

So Subsea 2.0 has had a profound impact on our manufacturing footprint in a positive way, if you will, from a cost point of view or from a returns point of view, and I strongly believe that Subsea 3.0 and beyond will have the same type of impact on the installation capabilities going forward for ourselves and ultimately for the industry.

---

**Operator**

And we only have time for one more question. Our last question comes from Kurt Hallead from RBC.

---

**Kurt Hallead** - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

So Doug, I just wanted to maybe follow-up real quick to make sure I understand correctly how you were going through that very detailed explanation of the transition year of 2020 and the impact on the Subsea margins related to that transition of much significant backlog flowing through the system? So would it be safe to say that maybe at a baseline of the margin that you have in backlog that would be maybe a 100 basis point higher

than that minimum point of guidance that you provided? And therefore, the difference is all that incremental cost that you're occurring through the supply chain to make sure you can execute on these projects? Is that a fair way to maybe look at that?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Certainly a creative way to put me in the corner, Kurt. I'm not going to fundamentally disagree with your statement.

---

**Kurt Hallead** - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Okay. That's fair enough. And just the last one here on Surface Tech when the split does occur, that will be roughly 20%, it looks like 20% of the Technip FTI EBITDA. I found interesting your commentary about the North American market, where you thought the second half would be stronger than the first half. That seems to be running a little bit counter to some other commentary that we've been picking up throughout the earnings period. So I just want to get your perspective on how you see that evolving? And just want to try to calibrate that with other things we've been hearing?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

Yes, Kurt. Look, I'm not going to pretend that I have a crystal ball that others don't on the North America market, been doing it for too long. I don't think anybody has ever gotten it right over a 12-month period. It's just way too dynamic of a market. Most of our competitors are now only giving H1 guidance, and yes, we could have went that route as well. We put out the view that we understand from our perspective, understanding kind of our market position and what we're trying to do in the market. But I think like everybody else, we'll see how the first half develops, and we'll come out with updated guidance for the second half when it's more appropriate.

---

**Kurt Hallead** - *RBC Capital Markets, Research Division - Co-Head of Global Energy Research & Analyst*

Okay. And I think just to finish off on here, you've indicated that there is an opportunity to take the integrated model from Subsea into Surface, just want to get an update from you on how that may be progressing?

---

**Douglas J. Pferdehirt** - *TechnipFMC plc - Chairman of the Board & CEO*

So thank you very much. It's a great note to end on. It is going well, and we'll be talking a lot more about that at the TechnipFMC Analyst Day later this year.

And if I could, operator, I've never done this before, but I'm going to ask a question because I'm a little bit surprised we didn't get a question around -- we just announced an LNG award as part of my prepared remarks, the award came just maybe one hour before this call. That is a huge, huge element for our company and for Technip Energies going forward. So Catherine, could you tell us a little more about the award that Doug announced earlier today?

---

**Catherine MacGregor** - *TechnipFMC plc - President of Onshore/Offshore*

Now this is a setup. Thank you, Doug, for your question. I'll just say a couple of words to say that, in general, we are still extremely positive about the LNG outlook for future demand, additional infrastructure will be needed. Additionally, our own positioning within the LNG market is very strong, and not to come across as overly confident, but there are only a few credible players that can tackle these complex LNG projects. And so today, the announcement from Sempra Energy of this award is really coming as a great satisfaction. We're very, very pleased with this award. It's a result of very early on engagement with our customers, recognition of our global LNG track record, also experience in Mexico, which we had before. So we were very pleased and looking forward to deliver on this project. So thanks for the question.



---

**Operator**

And I would like to turn the call back over to Matthew Seinsheimer for closing remarks.

---

**Matt Seinsheimer - TechnipFMC plc - VP of IR**

Thank you. This concludes our fourth 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 the Investor Relations team. Thanks for joining us. Operator, you may now end the call.

---

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.

