TechnipFMC plc

Chief Executive Officer Presentation at Barclays CEO Energy-Power Conference

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TechnipFMC plc (“**TechnipFMC”**) (NYSE and Euronext: FTI) (ISIN: GB00BDSFG982) announces that on 6 September 2017, Douglas J. Pferdehirt, Chief Executive Officer, addressed attendees at the Barclays CEO Energy-Power Conference. The transcript of Mr. Pferdehirt’s remarks is attached below.

PRESENTATION TRANSCRIPT

Mick Pickup - Barclays PLC, Research Division - MD

Well, good morning, everybody. It's my great pleasure to welcome TechnipFMC. After 15 years of doing this conference, it's great to introduce a company with a U.S. audience and understand what they've been seeing all these years instead of an audience of 4. TechnipFMC obviously fully merged now, an integrated model in the subsea, a world leader on gas processing plants, and a model which is being creative in trying to solve the solutions of its problems -- the problems of its clients. So congratulations, and welcome, Doug Pferdehirt, CEO. Hopefully, a very interesting story. Thank you, Doug.

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

Thank you very much, Mick, and thank you to the entire Barclays team for once again hosting us and putting on a very important industry conference. Before we start, I think it's important to reflect on the devastation and chaos that pursued from Hurricane Harvey, and we reach out. Our hearts are open. We're working very well across the organization. It's actually quite inspirational to see the solidarity across our industry in the Houston and Gulf Coast region in terms of companies helping companies, individuals helping individuals and companies helping the community. And we certainly are an active part of that and intend to remain so.

If I was to summarize where we are today as TechnipFMC, it came up at dinner last night actually, Mick. We're executing very well in a challenging environment. You can see this in our operating results. You can see this in our inbound orders. And you can see this in the market adoption of our new and unique integrated business model. In July, we reported our second quarter earnings. And we were very pleased with the results. We had strong execution in the quarter, delivering solid improvement in adjusted EBITDA margin in all of our business segments, despite difficult revenue comparisons for most of the portfolio.

Total orders were solid at $3.2 billion, including a very strong performance from Subsea at $1.8 billion in new orders, more than doubling the first quarter. We remain confident that we have seen the inflection in Subsea orders and that this will lead to a step-up in 2017 inbound. It is important to note that revenue growth will lag the inflection in orders, but we continue to invest in our core competencies through the cycle, ensuring that we can successfully deliver projects both now and into the recovery.

Finally, we see strong growth in integrated FEED, or iFEED activity. When we presented at this conference last fall, we disclosed the award of 16 integrated FEED studies since the launch of the new integrated model, compelling evidence that the market was embracing this new approach to field development. Today, we will update you on our iFEED progress, which we believe further highlights near and intermediate-term opportunities for integrated project awards.

Many of our FEED studies are focused on opportunities that are, first of all, unique to TechnipFMC. They are in assets or fields that otherwise may not be developed. And finally, they are convertible into direct awards, project awards to TechnipFMC as iEPCI projects. This provides TechnipFMC a unique insight into the market and a proprietary growth opportunity.

Turning to our second quarter results. Here, you can see the numbers by reporting segment. Subsea revenues were down 28% from prior year pro forma results, yet margins were up almost 500 basis points. Onshore/Offshore revenues were down 20%. Margins up 600 basis points. And while revenues from Surface Technologies were essentially flat in the period, margins expanded by more than 900 basis points. When taken together, these results speak to solid execution from the entire team in the face of a very challenging backdrop.

We're also benefiting from the significant cost reductions taken in prior periods. These savings go beyond just shrinking the global cost base. They're also focused on changing the way we do business. Yet despite all the efforts and distractions related to restructuring and merger-related activities, the team remains very focused on project execution, meeting several key delivery milestones in the period.

While strong execution was broad based, let me speak to a few highlights in our Onshore and Offshore segments. Here, we continue to make very good progress on two of the company's largest projects, the Shell Prelude floating LNG and Yamal LNG, both of which are delivering highly unique, customized solutions for the development of major natural gas discoveries.

First, let's talk about Prelude FLNG. This is the largest floating structure that has ever been built. TechnipFMC is responsible for the delivery of many of the key components required to transform the natural gas into a product that can be shipped worldwide. At the end of June, the vessel left the South Korean shipyard, a significant milestone in the life of this project. Today, she sits in Australian waters, where we have now moved into the offshore campaign. In addition to the floating LNG, TechnipFMC will also supply and install the subsea production equipment, which includes flowlines, trees, manifolds and control systems, just to name a few.

We also benefit from continued success with the company's largest project, Yamal LNG. Previously, we had talked about the progress being made towards completion of module fabrication. This is work that is done far away from the project location in Sabetta, Russia. We have now completed construction work on all modules and expect final delivery to the site by mid-September.

The work site is now at peak activity levels, and we anticipate completion of Train 1 in 2017. Construction is also underway on Train 2, with completion scheduled for 2018.

In summary, we executed very well in Onshore/Offshore in the second quarter. Prelude and Yamal were two important contributors, and that success was reflected in the strong financial results we posted in the period.

Turning back to Subsea. We reiterate our view that Subsea orders are recovering from the 2016 trough. We continue to believe we will see a step-up in inbound orders in 2017. And this has been supported by the improved order levels we experienced in the first half of the year. We remain very confident in both the revenue and margin guidance we have provided for full year 2017.

Q2 inbound of $1.8 billion was very strong. Orders included 2 major project wins, the Subsea production system and umbilicals for the ExxonMobil Liza project, as well as the SURF installation package for ENI Coral. We also benefited from a healthy level of small project inbound in the period, driven by Subsea tiebacks, product sales and our unique position with alliance partners that resulted in more direct awards.

While orders were broadly diversified in the quarter, the $1.8 billion of inbound will be very difficult to replicate for the remaining quarters of the year. Still, we remain confident in the order inflection for 2017, even with the potential for lower order activity in the back half of the year. This confidence in the market recovery and future inbound supports the investment decisions we are making today in our Subsea business. While we continue to make capacity adjustments in response to the market downturn, we have also been consistent in our view that we need to appropriately invest in our core competencies. We do not want to make the same mistakes of prior cycles by simply right-sizing to the current level of activity, leading to sub-optimal execution performance as the market recovers. We must ensure that we can continue to execute at the same levels or even higher both through the downturn and into the eventual recovery.

While Subsea orders have improved, it will take time for revenues to catch up. Subsea backlog now stands at more than $6 billion, with the distribution of revenues that extends beyond 2019. Backlog for 2018 represents about one-third of the total at $2.1 billion. We also expect this to increase given the inbound we anticipate for the remainder of the year. A step-up in order activity would imply at least $1.5 billion in new orders in the second half. Included in this outlook would be two or three major projects and other small project awards, a portion of which will be accretive to the 2018 backlog.

2018 revenues will include more than just the revenues we convert from backlog. Subsea services are included in orders but are typically not reflected in backlog given the short time line between order and execution. For the current year, this will add more than $1 billion of order – of revenues. There will also be revenues recognized from next year's inbound, which we refer to as Book & Turn.

In aggregate, these building blocks of backlog, plus services, plus Book & Turn orders points to revenues in 2018 that will be well above the $2.1 billion implied by backlog. However, it also strongly suggests that revenues will be lower than 2017. Major project wins will help grow backlog, but with delivery schedules typically extending two to three years, the revenue impact will shift increasingly beyond 2018 as the calendar moves forward. 2018 will be a more challenging year for Subsea, with revenue declines and strategic investment in our core competencies being among some of the challenges we face, but we are not standing still. Merger savings will offer some relief, and we have the flexibility to take additional restructuring actions should they be warranted.

Taking a closer look at the merger savings. We have identified $400 million in run rate savings to be achieved by the end of 2018. We continue to guide to a $200 million run rate by the end of this year. And as we stated in a recent update, we have already executed plans that will deliver more than $100 million in run rate savings by the end of 2017. Previously, we had identified the savings across 3 major categories: corporate, operations and supply chain. Now we are showing you the split by reporting segments. Much of the operational overlap of the merged businesses does occur in Subsea and corporate. However, the combined savings are created by eliminating redundancies and leveraging the global scale of the organization, leading to a broader distribution of savings that stretches across the entire portfolio. The simplest example would be in our efforts around the supply chain. Aggregating common raw material purchases across the entire portfolio lowers the cost borne by all segments. The benefits will come not only from higher volumes, but also the ability to consolidate the spend across the more concentrated supply base.

Procurement savings are highest in the Onshore/Offshore segment given the percentage of material cost in a typical EPC contract. We also note that some of the savings in Subsea had already been realized through our early work through the Forsys Subsea joint venture. Shared corporate costs would be an example of how we can do more by working as one. Much of these costs generally sit in the individual business segments. Now we can aggregate common functions around everyday expenses like information technology, accounts receivable and accounts payable, creating global centers that reduce risk in the cost of service delivery.

We are also centralizing some of our global engineering capabilities in low-cost countries, allowing us to reduce our regional cost structure while at the same time reducing product cost. Taken together, these actions will generate a broad distribution of savings across the portfolio, with the greatest impact realized in our Subsea and Onshore/Offshore segments.

While we are focused on delivering what is within our control, we also remain confident that the recovery in the market activity will continue. $50 oil is not an impediment to moving projects forward. This is substantiated by the significant increase in North America land activity we have seen since the trough of April 2016, as well as the 3 major deepwater project awards the industry has experienced in the first half of this year. Oil price uncertainty, not price, is the biggest potential roadblock today, as this tends to have a greater impact on the timing of investment decisions. Oil price volatility creates uncertainty regardless of an operator's long-term view of the commodity price. We believe that many of the current opportunities for deepwater developments remain economically viable at $50. Our customers have identified specific projects that can be sanctioned at levels far below that number. We also believe that the industry will deliver further cost savings over time, and these incremental savings could be significant. There have been tremendous cost and drilling efficiencies achieved on land in recent years. In deepwater, these are still early days. We are confident that both operators and service providers will continue to deliver greater efficiencies and higher project returns from Subsea projects.

For TechnipFMC, it is important to note that downstream activity is more resilient and less impacted by the current oil price volatility. We continue to believe that we will see additional refining projects move forward in the coming quarters.

Turning back to deepwater. We know that we can do even more to lower project costs today with our new integrated model. By becoming involved early in the life of the project at the FEED stage, we can influence field architecture by eliminating excess scope, often by a material amount. We can introduce new integrated technologies. Here, we are uniquely positioned with the broadest Subsea offering to drive the next generation of technologies focused on installability, serviceability and operability. And most importantly, as one truly integrated project delivery team, we can accelerate time to first oil, significantly lowering project cost and improving project returns. Key to maximizing these savings, though, is getting involved in the early stages of the project. Delivering the integrated FEED or front-end engineering and design work makes this possible. Integrated FEEDs are unique by design. They are built around low-cost solutions that incorporate our equipment standards, our technologies, our fleet, and our project management capabilities across the entire life cycle of the project. This makes the specifications unique and provides a higher level of savings to the operator, which can ultimately lead to a direct award for the project.

At this conference just one year ago, we showed you a chart that identified a number of integrated FEEDs or iFEEDs that we had received since going to the market with the new integrated offering in 2015. We also stated that projects typically take 15 to 18 months to move from an integrated FEED to an integrated project award. Since that time, the integrated FEED list has grown. And more importantly, it has matured, meaning iEPCI project activity is poised to accelerate in the coming quarters.

Here is the updated FEED chart. Last year, we had identified a total of 16 integrated FEED studies over the first 14 months. Since that time, the growth has accelerated, averaging 2 new studies per month, resulting in a cumulative iFEED count that has more than doubled over the last 12 months. This is the most visible opportunity set we have in support of this differentiated approach. Integrated FEEDs also serve as the catalyst for future integrated project awards. A year ago, we had not received a single integrated project award. This was not a surprise to us, as the list of potential award candidates simply had not had the sufficient time to mature to move forward to a project sanctioning. It typically takes 15 to 18 months to move from an integrated FEED project, including nine to 12 months to do the FEED study and about sixto nine months for the final investment decision to be made. Since that time, the list of potential project opportunities has indeed matured. Today, we have been awarded a total of five projects that have moved through the integrated FEED phase to a direct award and to now an integrated EPCI project. They reflect both brownfield and greenfield developments in both the North Sea and Gulf of Mexico. We have our first repeat customer, Statoil, which highlights their confidence in the model. And we have a project that incorporates new technology with the inclusion of our new proprietary compact manifold design.

Given our success to date with the adoption of the integrated model as well as the increased size and maturity of the integrated FEED count, we are even more confident that we will continue to see further conversions from integrated FEED into integrated project awards.

In closing, we are exciting – we are executing, integrating and winning in a very challenging market. Despite the external challenges, we continue to deliver strong execution across the portfolio as evidenced by the financial results we posted in the most recent quarter. We are also doing this while meeting our commitment to deliver merger-related savings at a $400 million run rate by the end of 2018. And we are winning through differentiation. We are winning integrated FEEDs that create differentiation and lead to integrated project opportunities. We are winning both integrated and traditional project awards with new technologies that both lower development costs and accelerate time to first oil, and there is much more that we can do, and we will do, around the development of new technologies that will create additional savings and further competitive differentiation. And we look forward to sharing some of these new technologies with you in the coming months.

I thank you very much for your attendance, your interest in our company, and I turn it back to Mick to take us through the next stage.

QUESTIONS AND ANSWERS

Mick Pickup - Barclays PLC, Research Division - MD

Yes. Do we have any questions in the audience? If not, could I kick it off? You talk about a challenging market in Subsea. Can you talk about competitive behavior? You said about shying away from projects that don't make sense. Can you talk about what you're seeing out there in the market, please?

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

Sure. Before I do, I just want to emphasize what makes TechnipFMC unique. What makes us unique is we have a strategy in place. We've been executing it now for multiple years that allows us, in many instances, to be isolated from that competitive market. One example that we talked about today was the integrated FEED studies that are unique to the new company because of the capabilities that we have in being able to work with our customers, identify an economic project threshold, that if we can achieve through a redesign of the subsea architecture, a new way of installing and delivering the subsea architecture, that would then lead to a direct award for the project. And then if you will, that's not part of the competitive landscape. It's important also to note our services business. We have the largest installed base of subsea equipment. The majority of subsea equipment that is installed around the world is TechnipFMC. We have over 2,200 trees out there. We have the same – a larger number of control systems. We have 11,000 kilometers of flexible pipe. We have over 5,000 kilometers of umbilicals. All of this equipment needs inspected, maintained and repaired over time. That's a steady stream that's also not exposed to the competitive landscape. And we have very, very intimate and very mature customer alliances that have been in place, in some cases for over two decades, with very large customers that we have worked with them and demonstrated over time our ability to continue to innovate on technology, on products, on services and on business models that keeps them performing in the top quartile. That is not exposed to the open market. But there is a portion, and the remaining portion of our business, that is exposed to the open market. Mick, to more directly answer your question, that is a very competitive market right now. There's certainly capacity, and there's certainly multiple players in that arena. Our approach to the open market is really twofold. It's to ensure that we can intimately understand the customer and the project and bring a solution that is not just price-driven. That may be an accelerated schedule, where we can deliver equipment in less time installed on the seafloor than our competition can. Or it may mean we are bringing a new technology that's going to reduce the total cost of the project over the life cycle of the project. The other metric that we use is purely based on price. And in those scenarios, we have demonstrated the will and determination to walk away from certain projects when we think that the economic threshold goes below a level that we deem appropriate for our company or we think for the industry. We'll walk away from those projects. We can do that because we have access to those other streams of projects, services, integrated EPCI contracts and our alliance partners that allows us not to be exposed, as most of our competitors are, only to that open market.

Mick Pickup - Barclays PLC, Research Division - MD

There is one at the back.

Unidentified Analyst

Do you see more awards coming over the next 12 to 24 months from your FEED backlog or from existing awards in the marketplace?

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

Interesting question. We have a clearer line of sight, obviously, on the projects that we're working on, many of them exclusive. We're working on most of those exclusively. We have more insight on how they're maturing, where the customers are more open with us in terms of their economic threshold, what needs to be achieved. So if I look at just total quantities of projects, I would say it's probably fairly balanced. If I look at projects that we have increased confidence that they're likely to actually move forward and be sanctioned, we just have greater visibility into that portfolio where we are working in a more intimate relationship. So net-net, I would say more on the FEED side, but overall, it's probably balanced in terms of quantity of projects. We publish a project list. We keep that updated. You can see that on our website of the projects that we are currently tracking in terms of the large projects, those greater than $250 million.

Unidentified Analyst

You gave some very helpful color on the performance of Subsea business going to next year, revenue wise. Any chance you could give us some indications on your other business, please?

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

Indications?

Unidentified Analyst

Indications on revenues and general performance going into 2018 compared to what you gave on the Subsea.

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

For the other businesses?

Unidentified Analyst

Yes.

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

Well, if just look at – we're not giving 2018 guidance today, but if we just look at it directionally, clearly, our Surface Technologies business is improving. That's mainly driven by the level of activity in North America. That's – you saw the 900 basis points improvement year-over-year in the second quarter. We have a very unique business where we're supporting the consumables, the high-pressure consumables to the pressure pumping industry. So as you see that industry recover and build capacity or reactivate capacity, we are a direct beneficiary of that. And then just the overall activity for our surface wellhead, frac flowback, water treatment business with our new integrated offering. There is a bit of a headwind from our international Surface Technologies business. During the downturn, if you will, or during the trough, some of the equipment and service providers that primarily focused on North America went to the international market, which was not as cyclical, bringing more competition, and in some cases, some lower pricing. That largely has reversed itself. That backlog takes about six to nine months in our Surface Technologies business to kind of work through, so we're working through a little bit of that lower-priced backlog right now. So that's a bit of a headwind against the North America. In Onshore/Offshore, as I said, we're tracking a handful of projects, particularly around refining. We've talked about some of those in the past, mainly in North Africa and in the Middle East. We're looking at those projects because we're either uniquely positioned because we are the incumbent, so it's a direct negotiation for an expansion of an existing facility, or projects where we have been doing the FEED study. In one case, we've been doing the FEED study since 2014, so we have a lot of visibility, and therefore, we feel we should be able to cost out that project much more effectively and much more rigorously than others who only have 90 days to endorse our FEED study and tender based upon that. The other market segment that we continue to track, and we're very excited about the ENI Coral FLNG award, is the LNG business. It's been slow. We expected it to be slow. There is – most of the consensus is 2022 to 2025, there's going to be a shortage of LNG. If you back that up by five years for an FLNG project or seven years for an onshore LNG project, that means we should see additional projects being sanctioned in 2018, 2019. We were successful on the ENI Coral FLNG, an important project for us. We've delivered the first 2 FLNG vessels, which was for Petronas Satu, which is in Malaysia. She's operating. She is offloading gas. Everything is going well. And then Prelude, as I gave you an update earlier, and now the ENI Coral award.

Mick Pickup - Barclays PLC, Research Division - MD

All right. If there are no further questions, we have a breakout in Liberty 1 and 2. Thank you very much, Doug.

Douglas J. Pferdehirt - TechnipFMC plc - CEO and Director

Thank you all.

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