REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FTI.N - Q3 2023 TechnipFMC PLC Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2023 / 12:30PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

Matt Seinsheimer *TechnipFMC plc - VP of IR*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

Saurabh Pant *BofA Securities, Research Division - VP*

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

Waqar Mustafa Syed *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

PRESENTATION

Operator

Thank you for holding, and welcome everyone to the TechnipFMC Third Quarter 2023 Earnings Conference Call. (Operator Instructions) I will now turn the call over to Matt Seinsheimer, Senior Vice President, Investor Relations and Corporate Development. Mr. Seinsheimer, please go ahead.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Jack. Good morning and good afternoon, and welcome to TechnipFMC's Third Quarter 2023 Earnings Conference Call. Our news release and financial statements issued earlier today can be found on our website.

I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements.

Known material factors that could cause our actual results to differ from our projected results are described in our most recent 10-K, most recent 10-Q and other periodic filings with the U.S. Securities and Exchange Commission. We wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof.

We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise. I will now turn the call over to Douglas Pferdehirt, TechnipFMC's Chair and Chief Executive Officer.

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

Thank you, Matt. Good morning and good afternoon. Thank you for participating in today's earnings call.

We delivered solid results in the third quarter. Subsea inbound orders came in strong at $1.8 billion, and adjusted EBITDA improved sequentially for both Subsea and Surface Technologies exceeding the guidance we provided on our second quarter call. This momentum is also driving our expectations for full year results higher.

Continuing with total company financial highlights in the quarter. Revenue was $2.1 billion. Adjusted EBITDA was $284 million, with an adjusted EBITDA margin of 13.8% when excluding foreign exchange impacts.

Total company inbound was $2.1 billion. Total company backlog ended the period at $13.2 billion. In Subsea, we received significant orders for flexible pipe in the period. These included an award from Petrobras for the pre-salt fields in Brazil and our largest ever flexibles contract in the Gulf of Mexico for Woodside's Trion project.

As both the pioneer and market leader of this technology, flexible pipe provides us with a unique capability to design fully integrated end-to-end Subsea systems for our clients. We have the unique ability to integrate flexible technology into our iEPCI offering which greatly simplifies field architecture. This enables a further reduction in project cycle time, improving economics and driving greater differentiation in our integrated offering.

Beyond flexibles activity, we also experienced an exceptionally high level of unannounced project awards in the quarter, which speaks to the ongoing strength of the market.

In Subsea services, inbound was robust, driven by installation and life of field activities. Given the continued strength in our inbound, we are confident that Subsea orders will exceed $9 billion for the full year. And if we extend the view to include our current expectations for 2024, we now believe the next 5 quarters will approach $11 billion.

With this near-term update, we now expect to exceed the guidance for $25 billion of Subsea inbound through 2025, and we will provide an update on this extended outlook on our fourth quarter earnings call. The durability of this cycle is driven by both an expansion in the number of active basins, which has nearly doubled versus the prior cycle as well as a growing and more diverse customer base.

Additionally, this cycle was supported by a robust and strengthening pipeline of FEED activity. In the third quarter, FEED studies increased nearly 40% when compared to the number of awards in the first half of the year. Importantly, more than half of the studies awarded to our company in 2023 have the potential to be direct awarded upon project FID.

This provides us with extended visibility and confidence that Subsea opportunities will remain resilient beyond 2025, even before we consider new frontiers that are likely to present themselves in the second half of the decade.

Subsea backlog ended the period of $12.1 billion, a nearly 60% increase year-over-year. An increasing proportion of this backlog is coming from iEPCI, Subsea 2.0 and other direct awards, reflecting the high quality of our order book. Year-to-date, we have been awarded the industry's 3 largest integrated contracts, Equinor's BM-C-33 project in Brazil, the Rosebank project in the U.K. and Aker BP's Utsira High project in the North Sea.

While integrated execution will certainly shorten cycle times, the size and scope of these awards provide us with multiyear visibility as a significant portion of the project revenues extend beyond 2025.

In Surface Technologies, international activity increased sequentially. We continue to ramp up production in our Saudi Arabia facility, as well as successfully execute on our multi-year framework agreement with Abu Dhabi National Oil Company. Activity in North America was moderately lower in the period. However, operating margin improved sequentially, benefiting from the strategic actions previously taken to reduce our cost structure.

In closing, our commercial and operational success continues to drive improved financial results, and Alf will discuss how the strength in the second half should drive our full year results higher. Additionally, the upward revisions to our Subsea order outlook are fueled by high-quality inbound, driven by iEPCI, Subsea services and other direct awards and which are now expected to represent more than 70% of segment orders in the current year.

And more importantly, these results are further strengthening the foundation for higher and more sustainable performance in the years ahead. I will now turn the call over to Alf to discuss our financial results.

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

Thanks, Doug. Inbound in the quarter was $2.1 billion, of which $1.8 billion came from Subsea. Revenue in the quarter totalled $2.1 billion. EBITDA was $284 million when excluding foreign exchange loss of $46 million and impairment restructuring and other charges totalling $4 million.

Operationally, we delivered solid results. In Subsea, revenue was $1.7 billion, up 6% from the second quarter. The increase was driven by mid-single digit revenue growth in both projects and services. The largest drivers of the improvement were in Norway and Brazil.

Adjusted EBITDA was $258 million, with a margin of 15.1%, up 70 basis points from the second quarter. Results benefited primarily from higher volume and favorable activity mix.

In Surface Technologies, revenue was $349 million. This was a modest decline versus the second quarter, primarily driven by lower revenue in North America, which decreased 8% sequentially, partially offset by higher international activity. Adjusted EBITDA was $50 million, a 6% sequential increase. International results benefited from improved operational performance in the Middle East. North America results were largely unchanged versus the prior quarter despite the revenue decline, benefiting in part from strategic actions taken in prior quarters. Adjusted EBITDA margin was 14.3%, up 100 basis points versus the second quarter.

Turning to corporate and other items in the period. Corporate expense was $24 million when excluding less than $1 million of charges. Net interest expense was $27 million and tax expense was $19 million. And lastly, we incurred a foreign exchange loss of $46 million in the quarter. Approximately 50% of the loss was directly related to actions taken that we believe will reduce the volatility in our foreign exchange exposure going forward.

Importantly, we believe these were onetime elements of our results in the period. Approximately 30% of the FX loss was related to the current cost of hedging our euro-denominated debt and liability positions with the remaining portion due to unfavorable movements in currencies that we are unable to economically hedge with the Argentine peso having the biggest impact in the period.

Cash flow from operating activities was $222 million and included a $27 million payment related to the previous legal settlement with the French national prosecutor's office. Capital expenditures were $44 million. This resulted in free cash flow of $178 million in the quarter.

In August, we completed the sale of the Apache 2 pipelay vessel for net cash proceeds of $54 million. The sale marks another tangible strategic step forward in our commitment to higher and more sustainable financial returns. We ended the period with cash and cash equivalents of $691 million. Net debt fell almost $200 million to $650 million.

During the quarter, we repurchased 2.7 million shares for $50 million and paid $22 million in dividends. Total shareholder distributions for the period were $72 million.

Moving to our guidance. I will first provide an update to our segment expectations for the fourth quarter. For Subsea, we expect the typical seasonal impacts with revenue declining approximately 10% sequentially and adjusted EBITDA margin coming in at approximately 13%. For Surface Technologies, we expect revenue to increase about 5% sequentially and adjusted EBITDA margin to be approximately 14%.

Turning to the full year. We anticipate corporate expense to come in at the high end of the range of $100 million to $110 million. With these updates, we now anticipate the range of outcomes for a total company adjusted EBITDA to approximate $915 million for the full year when excluding foreign exchange. This represents a $35 million improvement versus the guidance we provided on our second quarter earnings call. Lastly, we reiterate our free cash flow guidance of $225 million to $375 million for the current year.

In closing, I will share with you my 3 key takeaways from the quarter. First, given the strong Q3 results and improved outlook for Q4, we are increasing our guidance for full year company EBITDA to approximately $915 million when excluding foreign exchange. Second, free cash flow generation improved in the period as expected, keeping us on track to achieve our full year guidance. And third, with the initiation of a dividend in the quarter, and ongoing share repurchase activity. We distributed over $70 million, demonstrating our commitment to return cash to our shareholders. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Anderson at Barclays.

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

So a question on -- maybe just to start on the order outlook. So over the next 5 quarters, you see $11 billion. What looks different about that $11 billion going forward? Or does anything look different in terms of -- is the customer mix shifting one way or another? I think you said 70%, you're expecting to be Subsea 2.0. With market capacity tightening, I think pricing should also be firming up as well. Could you maybe just kind of talk about the difference going forward with what you've kind of pulled in over the last year or so?

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

Sure, David. I guess at the highest level, the way I would describe it is just a much higher quality inbound and there are several aspects to that. But most importantly, for our company is the direct awards, which is now over 70% of our business being direct awarded to us in Subsea. That's being driven by our unique iEPCI or integrated offering. Our unique subsea architecture, the Subsea 2.0. And again, our very long, strong client relationships.

There's also a bit of a mix shift in terms of the customer base. I talked about that for a few quarters now. We continue to see the customer base expanding and more people moving into the offshore arena because of the high-quality reserves and quite frankly, the access to those reserves. And we have, again, that combination of iEPCI and 2.0. And just the open and collaborative way we work with our clients are really fits those clients, our existing clients, but also the new clients in a very favorable way.

So I guess, Dave, what gets us excited is it's the quality. And we obviously have the opportunity to be selective given the market position that we have. So we can really focus on that -- those high-end, high-quality inbound that will create the success for the years to come.

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

So another subject we're starting to hear something about is kind of rising breakeven costs for offshore. We know rig rates have more than doubled over the past few years. Service costs are moving higher. Just wondering in your conversations with customers, do you get any sense from customers that they're concerned about that? Is that potentially driving a case of urgency for your customers to get a project locked up before costs move higher?

And just kind of related to that question, kind of roughly percentage of an overall project, what percentage do you guys typically comprise? I know they're all different, but just maybe just a range would be helpful.

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

I'm sorry, the second part, what percentage of?

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

Yes, your business sort of comprises one of these offshore projects. Just curious, is it 20%? Is it 30%? Just trying to get a better handle on kind of where you fit in the scheme of things.

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

Sure. Thank you, Dave. So let me start on -- let me do the second part first because I think it will help FEED into the first part.

In a brownfield development, so that's into development where there's an existing host facility, and you're tying back maybe an extended part of the reservoir or a new reservoir back to that host facility. We now, because being the only fully integrated company we now can represent up to 70% of the cost, Dave, of a brownfield development normally between 60% and 70%. So we, if you will, we are the cost driver. Now I'm going to get off of this cost part here in a second, but we do comprise a large portion of the value of that project.

In terms of the greenfield development, the rule of thumb is about 1/3, 1/3 and 1/3. That's where the driller has a 1/3. We would have a 1/3 and then whoever is building the floating facility would do the other 1/3. So a little less influence over the overall project economics in a greenfield development, but it still can be quite material. And here's why. And this now falls in bridges to the first part of your question, it's all about time. It's simply all about time.

So yes, I understand rig companies like to talk about day rates, but the reality of the project economics is the best way to influence the overall project returns is to accelerate the time to first oil. And most importantly, deliver the project on time.

And this is what's driving our customers' behavior, Dave, because they're sitting there and they want to align with the very best companies that give them the highest probability of delivering the project on schedule. And oh, by the way, with TechnipFMC, we can typically deliver it 1 year ahead of [schedule] (added by company after the call) -- if we don't use TechnipFMC. Again, iEPCI and 2.0 driving that cost or that cycle time to be much shorter.

So that's really what we're seeing. We're seeing a flight to quality. Sure, they're always focused on economics and always have been and so are we. Again, as a pure play, we truly understand the value of the offshore, and we truly understand how to drive offshore project economics to an even higher level, and we do that through our iEPCI, the 2.0 unique offerings to our company which gives us our customers the confidence in our ability to be able to continue to deliver these projects on time. That's really the secret sauce of our company there.

Operator

Luke Lemoine at Piper Sandler.

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

When you laid out that initial Subsea margin target of 15% for '25 in late '21, which you actually just hit this quarter. I don't believe there's much '25 backlog visibility at the time. Just kind of guessing this is somewhat predicated on what you saw coming in the pipeline from 2.0 iEPCI direct awards, which you've talked about. Since then, you've raised that margin target earlier this year. But my question is, even though you have some backlog visibility past '25, which you show in your slide deck, how comfortable are you with where margins get ahead for maybe the next 3 to 4 years? And just to clarify, I'm not looking for a specific margin target, just kind of your confidence and visibility in that 3- to 4-year time frame.

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

No problem, Luke. You're spot on. If you go back to November of 2021, it was a very different world. And when you look at what was happening offshore, it was very different, indeed. So we were talking about at that point, increasing our margins up to 15%, but largely through the internal initiatives. And that's really Subsea 2.0 has allowed us to change our operating model from an engineer-to-order to a configure-to-order operating model. That has had profound impact on our business.

And you can't just do -- you can't -- first, you have to develop the architecture, but then you have to gain enough scale to be able to really see the benefits of the configured to order. So if you will, it's a unique opportunity for our company. So when we gave the 15%, largely predicated on internal initiatives.

Clearly, the market conditions have improved since 2021, hence, raising the 15% to 18%. Thank you for pointing out, we tripped the 15% already this quarter and we continue to be extremely confident in the progression of our ability to continue to extend the margins not only because we're getting ever more benefit from the configure-to-order model as the iEPCI and 2.0 direct awards continues to increase for our company, and we get the volume and the scale benefit as well and obviously, the underlying market conditions are improving for us gives us the confidence to be -- and it's why we've repeatedly said the 18% is a major milestone on a more ambitious journey. So we remain extremely positive of the future.

Operator

Marc Bianchi at TD Cowen.

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

Maybe just quickly, Alf, to confirm on the EBITDA for this year, you said 9-1-5, not 9-5-0, correct?

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

Yes, Mark. Confirm. 9-1-5 is what I said. It's $35 million up from the prior guide that we had from the prior quarter.

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

Yes. Okay, super.

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

And maybe, Mark, if I can add something, Mark, just to clarify also. You may wonder, in the prior quarter, if you remember, we mentioned also that we think we will be doing EBITDA -- having a 35% growth of EBITDA into 2024. So now that you take this new number of $915 million, you can still apply this 35%. So just to be very clear, we haven't backed off on the 35% going into 2024. But I'm happy that you clarify $950 million versus $915 million, but still the same dynamics are in place.

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

Okay. That's great. That was actually going to be my next question. Doug, if I remember correctly, you came to FTI in early 2010s, which was a period when I think everybody thought that Subsea was kind of going to grow as far as the eye can see. And it seems like maybe that's where we are shaping up today, but the market is quite a bit different. Your offering is obviously very different. But from a customer perspective, I'd be curious to hear any reflections on how things compare today versus that early 2010 period.

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

Interesting question. And actually, I think a lot about this just in my spare time. So look, a lot has changed. And when we talk about the customers, I would say our customers are much more collaborative, much more open to partner-led solutions, much more open to new technologies. And it's really what enabled us to be able to achieve the success we've achieved with Subsea 2.0.

The idea of standardization has been around since before 2010, and the ability to be able to go from engineer-to-order to configure-to-order, which is much more than just standardization was really the key. When we unlock that and we're able to convince our customers that they could still have, if you will, optionality, but the building blocks were going to be standardized, not the final product, but the input to the final product was going to be standardized. That really changed the way of thinking.

So look, a lot of the credit goes to our customers and their behaviors, which have certainly changed and improved over the period of time. Our customer base has also expanded quite significantly over that period of time. Did I mentioned in the script, we're operating in twice the number of basins that we have historically operated in. So people don't really think about it that much, but just the offshore market, when we think about offshore -- as offshore, but it was fairly limited in the areas of offshore that were really being developed. And that has doubled.

And then when you start to look in the -- what keeps this momentum going, you start to look at all these frontier basins that we're hearing about. They're not onshore. They're offshore and they're offshore around the world. They're not in any one particular continent or one particular area. They're spread around the world.

And those areas are the ones that are going to contribute well beyond the numbers that we're talking about today. So it is very, very different. And thank you for pointing out. I do want to close on. We're a different company. We were a great company in 2010. I believe we're an even greater company today. And again, that's driven by the change in our operating model and our ability to be able to demonstrate to our clients and give them the confidence to direct award us the work that they do because of who we are.

Operator

Mark Wilson at Jefferies.

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

Yes, excellent set of results and outlook there. Doug, just a few outside points. The sale of the Apache vessel, I just wondered if there's any more of those planned. And then the other question, do you see on the horizon a first offshore CCS award coming at all by 2 points?

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

Thanks, Mark. Regarding the fleet, as we have said since we formed the company on the 17th of January 2017, we were going to focus on a company that really had exemplary through-cycle returns. And part of that was we were going to do things differently in regards to the fleet. We do not need to own and operate all of the vessels that we use in our business.

The only way to do that is to be a company that others trust, and others are willing to work with, and that's our reputation. And that's how we've been able to develop our vessel ecosystem and bring in world-class partners like Allseas and Saipem and more in the future. And that's really what enables us to continue to look at our fleet and determine if those assets are strategic to our company or not. And if they're not, then we're able to continue to streamline our -- improve our returns by streamlining our fixed cost base.

I'm sorry, Mark, and I just was reminded of your second question. I got excited about the first, thank you. On the second question, I would answer that by saying indeed.

Operator

Kurt Hallead at The Benchmark Company.

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

Making sure I didn't lose you. Doug, with the expanding inbound and backlog you have on Subsea and obviously, the increased visibility out toward the end of the decade. I was wondering if you could give us some insights on what -- how you're managing execution risk internally and what you are able to provide to your client base that assures them that when they do throw this stuff your way, you're going to be in a very strong position to handle it. And as you said, deliver it on time.

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

Kurt, that's the million-dollar question. And I will tell you when I'm speaking to clients, that is typically -- when they call me -- that is typically the call. It's -- we have this new opportunity. We're looking at this new emerging basin. We want to be securing assets well into the future. We want to work with TechnipFMC. Give me or give us the confidence that you're going to be able to deliver this. That is absolutely the discussion that's going on today.

First and foremost, do what you say you're going to do, and we've demonstrated that. We continue to shorten the cycle times. We continue to deliver the innovation into the industry. And we continue to be the company that our clients want to partner with if they want to work with because of our behaviors and who we are as a company.

More importantly, is -- to give them the additional confidence, I should say, is really helping them understand how this shift from engineer to order to configure to order has fundamentally changed the operating model of our company. And we actually had an opportunity earlier this week with our Board of Directors to kind of walk them through how we're operating the company today at a -- on a daily basis at an operating level. And it's a profound change.

And the visibility and the -- our ability to be able to see though and understand what are those key success factors that will ultimately deliver the KPIs or, if you will, the project on time and tracking those key success factors is really quite a fundamental change. And I know it sounds basic, but when you're doing configure to order, the only really metric you have -- I'm sorry, when you're doing engineer-to-order, excuse me, the only real metric you have is the output, did you or did you not deliver on time. And that's too late to fix anything. What they now see is that we have the ability in the configure-to-order to be well ahead.

There are so many things we can do that we could not do in the past because remember, when we got a Subsea order, we spent 9 months of detailed engineering before we could place a single order with the supply chain, internal or external. The situation our competitors are in today. Whereas we're able to work with our clients and we can look at 5 years ahead of time. We can look at 1 year ahead of time, and we can start putting in place those building blocks that are going to enable the success by ensuring that the schedule -- by having scheduled certainty and schedule assurance for our customers. So it really is a different way of operating. And we'll walk our clients through that, and they see it in all of our operating locations. They're able to experience that in our operating locations and just continue to deliver at a very, very high level.

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

That's great color. And a follow-up kind of curious, right? We've seen some recent kind of tying everything together here, right? With respect to the order book, the upcoming, the insights as to the projects that are slated for even later this decade in the incremental oil that's going to bring to the market, right? You had the OPEC come out and suggest continued oil demand growth out beyond 2030. Obviously, you had the IEA, kind of pitch a different tone.

But through all your experience in dealing with different cycles, right? At the end of the day, I can't imagine a customer moving forward with a project that's going to deliver first oil in the latter part of the decade if their data is telling them that the market is not going to be there for the product. But I'm just kind of curious as to when you try to piece all this stuff together, how you sort through the noise?

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

Kurt, I think you look for the high-quality data, you look for -- you listen to your clients, and you look for the most realistic outcome that's not influenced by external factors. And I think it's very, very clear that there's going to be a continued demand and a continued high level of demand. And just using the references that you used at the beginning, we certainly believe in the data in the commentary that's being provided by OPEC.

Operator

Arun Jayaram at JPMorgan.

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

I wanted to get some thoughts on the flexibles business at FTI. I was wondering if you could give us a sense of how much of your kind of current contribution is from flexibles. And as we think about a couple of the large project awards that you announced this quarter with Petrobras and with Woodside in Gulf of Mexico, how that mix could change and maybe the margin profile as well? As well as maybe just the technology that you think you bring to the table versus 2 of your other peers that are in that segment.

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

Sure, Arun. As you pointed out, there's a very few of us who work in this domain. We're the pioneer, we're the market leader. I would say, we focus more on the higher end range of the flexibles. We've always gone -- we're the ones who have driven diameter, we're the ones who have driven pressure rating, we're the ones who have driven potential strength, et cetera.

And as far as percentage of the business, it's important. But more so than the percentage of the business that it represents. And it depends if you prefer Bouillabaisse or Gumbo, but anybody who has a Bouillabaisse or Gumbo recipe has a secret ingredient. This is our secret ingredient. This is what makes iEPCI tasteful.

And the reality of the situation is without this you can only do limited -- there's only limited benefit to an integrated offering. This is why is the first mover. We chose to go with Technip at the time. The flexible offering from Coflexip was absolutely critical to our vision of an optimized Subsea architecture. So it's not only the value it brings as a product line, but we're the only ones who have the product within an integrated company. The real benefit we get is the influence it has on our iEPCI awards and also on our iEPCI margins.

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

That's helpful. Maybe just a follow-up for Alf is you mentioned how the soft guide on 2024 is 35% EBITDA growth from the $915 million. I wanted to maybe ask for a little bit of a clarification on the cash return. I believe the stated policy is to return 60% of your free cash flow back. And one of the questions from investors is how does the PNF settlement, how does that impact the free cash flow calculation and cash return?

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

No, thank you for the question. So first of all, very clear, we do have a commitment out there that we will return at least 60% of our free cash flow to shareholders and we're going to stay true to that over the next 3 years. So what we further are saying is that really also the growth rate of 35% that you see in EBITDA from '23 to '24, we expect to apply that to distributions as well for 2024. .

So in short, answering your question, yes, there is an impact of roughly $170 million of payments outflow next year in terms of the free cash flow. But overall, we still expect to drive to increase shareholder distributions by 35%, in line with our EBITDA guidance. So that also tells you something about the underlying strong fundamental cash flow that you're going to see year-over-year if you exclude the impact of this $170 million of payments.

Operator

Scott Gruber at Citigroup.

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

Doug, in your prepared remarks, I believe you mentioned upside to service revenue in addition to the upside to the order intake. You guys have been targeting $1.5 billion of service inbound in '25. I'm just curious whether you guys are contemplating upside to that number as well.

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

Thanks, Scott. Obviously, we'll be giving a bit more detail with our Q4 -- on our Q4 call. But I would tell you, as you were kind enough to ask the question, we are very proud of our Subsea services business. We have high expectations of our Subsea business.

So you should expect to see our Subsea services business continue to benefit not only from the higher level of project awards, which means a higher level of installation activity, but we're also seeing customers focus more on inspection, maintenance and repair. Really wanting to ensure optimized uptime of their producing assets as well as our Subsea well intervention services.

And that's really about ensuring the production because there may be some downhole issue that has occurred and our ability then to go out and help them intervene into the well in the most cost-effective way. So there's multiple drivers and a significant amount of optimism around our Subsea services business.

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

Got it. And the margins for that business have typically been better, what's the outlook for pricing and margins going forward then? I just imagine that there's more competition with -- between installation and the maintenance and inspection just given that the equipment award volume is going up, and therefore, the installation outlook is going up. Does that create competition for those resources to do the inspection maintenance repair such that you can get incremental pricing and margin?

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

Well, first of all, Scott, remember, this is an OEM model. So we service and maintain everything that we install. We have the world's largest installed base, and we benefit from that with these businesses. It's only growing. As you know, based upon the award activity over the last couple of years where we've had a substantial growth relative to the market. That has been reflected in subsequent years into our Subsea Services business. But it's all an OEM business.

Look, I don't talk a lot about pricing. We work very closely with our clients. They want to ensure that we're getting -- that we are very satisfied with -- that we feel we're being treated appropriately and fairly on an economic basis, and we're very comfortable with that, yes.

Operator

Saurabh Pant with Bank of America.

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

Doug, a quick follow-up on the flexible question earlier on. It's really good to see the traction third quarter. Can you talk to a little bit about the demand outlook for flexibles and maybe talk to your capacity, the industry's capacity to deliver on that demand. And the reason I'm asking that Doug, just on context is because one of your large competitors has talked about being sold out to 2025. So I'm just trying to think how the demand looking, how the capacity looking particularly at FTI.

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

Yes. The -- just like in every part of our business, we don't focus so much on being sold out. We focus on developing technology that we can ensure a shorter delivery time or faster deliveries or higher throughput, if you will. So if we look at Subsea 2.0 broadly, Subsea 2.0 reduces the time through our facility by 50%. Or in other words, we can put twice the capacity through our existing facility without spending additional capital.

When you're still doing engineer-to-order or 1.0, which as you point out, the rest of the industry is doing, including in flexibles, you're kind of constrained by the size of your facility and hence being sold out or percent utilized. What we're doing now is expanding the 2.0, offering -- the 2.0 methodology across our entire offering, including flexibles. So our approach is how can we have a better product that's configured to order versus engineer-to-order that we can have a higher cadence through our manufacturing facilities, thus addressing the market's needs.

The other aspect I would point out is, clearly, we're focusing on our partners, our direct awards, our iEPCI projects because, again, as I pointed out earlier, that's really the secret ingredient to success of an iEPCI or an integrated project. So we do some prioritization, which is why when I was answering one of your colleagues earlier, I said we do some prioritization, and we do tend to work on the high end, high quality, if you will, portion of the flexibles market.

There is some -- there is a lower end portion of the flexibles market as well, which we certainly can participate in, but that's not where we focus. That's more of the commoditized end of the flexibles market.

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

Okay. Awesome, Doug. And just a quick follow-up because we get this question a lot from investors. So let me just ask you the way I get asked. Two of your competitors recently formed a joint venture. How should we think about the potential impact of that joint venture on the overall market, the industry's capability to respond to what's going on. And how does it impact FTI in particular? How should investors think about that?

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

So just to clarify, you're talking about the 3 Subsea?

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

Yes. I'm talking about the one of the joint venture.

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

Oh, I'm sorry. I meant the 3 Subsea companies that are coming together.

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

Yes, yes. Absolutely. Yes, yes.

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

Well look, I think first and foremost, it's clear validation of the strength of the market. You would -- 3 Subsea companies wouldn't be coming together if they didn't see the strength in the market going forward. So it's just a point of validation. But it's also a reshaping of the market, right? So we see both of these things is quite favorable to our company. We've talked a lot about bringing companies together. Consolidation is one thing. Creating an integrated offering, we feel is the better way to go about it. Investing in technology, doing things that are going to improve our clients' project returns, that's where they see the value, and that's, quite frankly, why we've seen and continue to see the level of direct awards to our company, which is actually a quite unprecedented in our industry or I believe, any industry.

So look, from our point of view, we did our heavy lifting back in 2015. I believe it or not that long ago is when we started the journey. We completed the merger in the 17th of January 2017. And look, I'll be very candid. It took years. It took years to get everything operating at the level it's operating at today, bringing together 2 companies, let alone 3 companies, it's not easy to do. So we're really glad we did ours 8 years ago. I can tell you that. And today, we're singularly focused on our clients and singularly focused on their success by delivering the world's very best Subsea projects.

Operator

Our last question will come from the line of Waqar Syed at ATB Capital Markets.

Waqar Mustafa Syed - *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

First one, Doug, you've given guidance that over the next 5 quarters, inbound orders in Subsea could be around $11 billion. If you look back over the last 3 to 4 months, has that view been upgraded? Or has that view relatively remain unchanged, but the confidence in that outlook has increased.

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

A fair question. I would say it's been upgraded and the confidence has increased.

Waqar Mustafa Syed - *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

Okay. Now does that have any impact then on your 2025 outlook for revenues and EBITDA?

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

Absolutely not. Let me clarify. Maybe that was too quick of an answer. When you talk about the $25 billion target for 2025, clearly, as indicated in my script, we expect that will be -- we will be giving you an update on that on the Q4 guide. So if you were staying on inbound, as you mentioned, EBITDA, again, as I said earlier, we're going to be giving -- we just gave a view for total company EBITDA for 2024, which is an increase again this quarter, the second consecutive quarter that we're increasing our 2024 number, which obviously shows a very strong pattern. We'll be segmenting that out on the fourth quarter call, and we may take the opportunity to revisit 2025 as well. But clearly, it's trending in the right direction.

Waqar Mustafa Syed - *ATB Capital Markets Inc., Research Division - MD of North American Energy Services & Head of U.S. Institutional Equity Research*

Okay. And then in terms of your capital spending, $250 million so far for this year, is that number likely to change? I know it's still early for next year. Or is that kind of a base level 250 that's likely to stay year-over-year?

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

The truth is we don't know. And I know it's an important number because I know it's a visible number for investors to use in their decision-making. What I would encourage people to realize is it's really the prioritization of that spend. And it's clearly being prioritized to upstream, and it's clearly being prioritized to offshore. So from our perspective, we are very confident in the continued growth of the capital expenditure. And I'm going to ask Alf to add some additional comments.

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

I just want to add the reminder that -- so when we look at our capital expenditure, we have given the long range -- long-term guidance that we are going to be in the range of 3.5% to 4.5%. However, over the past 12 months and more, we have really seen that we can operate at that 3.5%, the lower end of that range, and that continues to be the guidance, meaning 3.5% of revenue level. It's true for this year. It's probably going to be true for next year and just keep that number for right now as a guide for the intermediate term.

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

No. Thank you, Alf. I was answering it just to be clear. I was answering it from our customers' capital expenditure and thank you for clarifying the internal wealth. I appreciate it.

Operator

I will now turn the call back over to Matt Seinsheimer for parting remarks.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

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

Operator

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