REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FTI.N - Q4 2023 TechnipFMC PLC Earnings Call

EVENT DATE/TIME: FEBRUARY 22, 2024 / 1:30PM 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*

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

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

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*

PRESENTATION

Operator

Hello, and welcome to the TechnipFMC Fourth Quarter 2023 Earnings Conference Call. (Operator Instructions) I will now turn the conference over to Matt Seinsheimer. Please go ahead.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Sarah. Good morning and good afternoon, and welcome to TechnipFMC's Fourth 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 Doug Pferdehirt, TechnipFMC's Chair and Chief Executive Officer.

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

Thank you, Matt. Good morning, and good afternoon. Thank you for participating in our fourth quarter earnings call. I am proud to report our strong quarterly and full year results, which really speak to the growth and operational momentum we are achieving. Total company inbound for the year grew to $11 billion. This included Subsea orders of $9.7 billion, which was an increase of 45% versus the prior year and a book-to-bill of 1.5. These strong results benefited from a record level of iEPCI awards in the period. Total company revenue for the year grew 17% to $7.8 billion. Adjusted EBITDA improved to $939 million when excluding the impact of foreign exchange.

This was an increase of 40% when compared to the prior year. We generated free cash flow of $468 million for the year, and we returned nearly $250 million to shareholders through share repurchases and dividends. While these are all solid improvements, I am particularly pleased with the quality of the inbound received in 2023. With direct awards, iEPCI and Subsea services together exceeding 70% of Subsea inbound. We are also seeing tangible improvements in Surface Technologies. This has resulted in improved financial performance, higher cash generation and greater consistency in delivering on our annual commitments. Any way you look at it, 2023 was a period of strong growth for our company. And we see continued strength ahead driven by the resiliency and durability of this cycle. The demand for energy will continue to grow. And for more than a decade, unconventional resources in North America have provided a significant portion of the world's hydrocarbon growth.

The growth from the region will be more limited in the years ahead driven by capital frameworks that reward higher economic returns and increased shareholder distributions. This means that the incremental production needed to support global growth will come primarily from international markets, driven by the Middle East and offshore. Looking ahead, the market for conventional energy resources will evolve differently than what we have experienced in the past, driven by 3 major trends: a shift in capital flows; an increased role for new technologies; and an expanded role for Subsea services, all of which will allow TechnipFMC to leverage the full capabilities of our integrated solutions, differentiated technologies and the industry's most comprehensive Subsea service capabilities.

Looking more closely at these major trends. Let's start with the shift in capital flows. We expect to see continued strength in spending both in land and offshore markets. However, the dynamics will differ across the major markets as capital flows are typically a function of returns and access. In North America, the history has access to resources, but economic returns will continue to be challenged outside the most prolific basins. We believe this will result in more modest growth in the region.

Opportunities in the Middle East benefit from strong economic returns that will drive continued growth. That said, the number of operators that have access to these attractive resources is far more limited, which brings us to the offshore markets. Here, we believe, much improved economic returns and broad operator access to deepwater resources will attract a growing share of global capital flows.

And with more than 90% of our total revenue generated outside the North America land market, FTI stands out as the pure-play equity to address this opportunity. While the strength of these trends is partly reflected in our current backlog and revenue guidance, we have high confidence in the durability of the market over the intermediate term. In 2024, we remain on track to meet our prior guidance for Subsea inbound with current year order expectations approaching $10 billion. Today, we are also increasing our expectations for Subsea inbound over the 3-year period ending 2025 to reach $30 billion, a 20% increase versus our prior view.

Looking beyond capital flows. We expect that technology will also play a bigger role in spending behavior. Here, TechnipFMC is focused on developing technologies for both conventional and new energies to drive market expansion. More specifically, we are using technology to drive further innovation in the offshore market - creating new growth opportunities.

A clear example of innovation is the Mero 3 HISEP contract, which we were awarded just last month. The significance of this project for the Subsea industry cannot be overstated. It will be the first to use Subsea processing to capture CO2 directly from the well stream for injection back into the reservoir. Importantly, this will all take place on the seafloor. In addition to reducing greenhouse gas emission intensity, HISEP technologies will increase production capacity by debottlenecking the gas processing plant that currently resides on the FPSO.

By moving the gas processing entirely to the sea floor, future FPSO topside designs can be further simplified, driving significant improvement in project economics. HISEP is a major milestone for the Subsea industry and for TechnipFMC. This project plays to our strengths. HISEP will allow us to demonstrate how technology innovation, project integration and partner collaboration enable our meaningful participation in the energy transition while remaining aligned with our strategic priorities. It is the first iEPCI project ever awarded by Petrobras. And it builds upon our strong order momentum, starting the year with an iEPCI award that exceeded $1 billion.

And finally, the third major trend driving Subsea market growth opportunities can be found in services. Today, Subsea fields host more than 7,000 Subsea trees and associated infrastructure, including manifolds, control systems, umbilicals and flexible pipe. This list is certainly not inclusive of all major components of the Subsea production system. However, it does highlight the size and scale of the industry's large and more importantly, growing installed base.

TechnipFMC's global services organization plays a critical role throughout the entire life of the field from system installation to maintenance, intervention and production optimization and all the way through life of field. Our 2023 results clearly demonstrate that our strategy to enhance this resilient, growing and high-return business is delivering real value, with our services revenue having achieved over $1.5 billion for the year.

In summary, we closed out a solid year, having delivered many notable achievements. Subsea orders increased 45% versus the prior year and included a new record for iEPCI awards. This growth in orders also drove a 50% increase in Subsea backlog to over $12 billion with high-quality inbound supportive of further improvement in our financial returns. And our growth in full year operational results reflect strong momentum that continues into 2024.

We have entered an unprecedented time for the development of conventional energy resources driven by 3 major trends. A shift in capital flows, which we believe will largely be directed to the offshore and Middle East markets; an increased role for new technologies, as shown by the Mero 3 HISEP award; and an expanded role for Subsea Services, driven by the needs of growing and aging infrastructure. Importantly, these trends underpin the 20% increase in our expectation for Subsea inbound over the 3-year period ending 2025, which at $30 billion will provide additional growth in backlog and further extend the execution of our project portfolio through the end of the decade.

I will now turn the call over to Alf.

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

Thanks, Doug. Inbound in the quarter was $1.5 billion, driven by $1.3 billion of Subsea orders. Revenue in the quarter totaled $2.1 billion. EBITDA was $245 million when excluding foreign exchange loss of $26 million and restructuring, impairment and other charges totaling $10 million.

Turning to segment results. Subsea revenue of $1.7 billion increased modestly versus the third quarter. The increase in revenue was due to higher project activity in the Gulf of Mexico, Asia Pacific and Africa driven in part by accelerated conversion of several projects from backlog. The increased activity was largely offset by seasonal factors that impacted vessel utilization. Revenue for Subsea services modestly increased due to strength in asset maintenance and ROV services in Norway and the Gulf of Mexico. Services revenue was also less impacted in the quarter by typical offshore seasonality, particularly in the North Sea. Adjusted EBITDA was $225 million, with a margin of 13.1%, down 200 basis points from the third quarter due to lower vessel-based activity and a mix of projects executed from backlog in the period.

For the full year, Subsea revenue grew 18% versus the prior year, with adjusted EBITDA margin up 180 basis points to 13.3%.

In Surface Technologies, revenue was $357 million in the quarter, an increase of 2% sequentially. The increase in revenue was driven by higher activity in international and North America markets both benefiting from higher wellhead equipment sales. Adjusted EBITDA was $52 million, a 5% sequential increase benefiting from increased contribution from international services and higher wellhead sales. Adjusted EBITDA margin was 14.7%, up 40 basis points versus the third quarter. For the full year, Surface Technologies revenue was up 12% versus the prior year, with adjusted EBITDA margin up 230 basis points to 13.6%.

Turning to corporate and other items in the quarter. Corporate expense was $33 million when excluding $5 million of charges. Net interest expense was $13 million and benefited from increased interest income in the period, driven in part by strong cash generation. Tax expense was $54 million. And lastly, foreign exchange loss was $26 million, the majority of which was related to the significant devaluation of the Argentine peso. Cash flow from operating activities was $701 million. Capital expenditures were $72 million. This resulted in free cash flow of $630 million in the quarter. Free cash flow for the full year was $468 million, above the high end of our guidance range. When excluding the impact of foreign exchange, we converted 50% of adjusted EBITDA to free cash flow, achieving the cash conversion rate we had previously targeted for 2025.

Total shareholder distributions were $77 million in the quarter and $249 million for the full year. We ended the period with cash and cash equivalents of $952 million. Net debt declined more than $500 million to $116 million. In November, we announced an agreement to sell our Measurement Solutions business for $205 million in cash. We now expect to conclude the transaction by the end of the first quarter, subject to customary closing conditions.

Moving to our financial outlook. We have provided detailed guidance for the current fiscal year in our earnings release. I won't speak to all the details but will provide some context for certain items for the full year and first quarter. I will begin with Subsea. At the midpoint of our full year guidance range, we anticipate revenue of $7.4 billion with an EBITDA margin of 16%. This represents a 270 basis point margin improvement from the prior year.

Our outlook also anticipates continued growth in Subsea services revenue to approximately $1.65 billion, achieving this level 1 year ahead of our previous target. For the first quarter, we anticipate Subsea revenue to decline low to mid-single digits, due to more typical seasonal activity patterns and EBITDA margin to be in line with fourth quarter results.

Turning to Surface Technologies. At the midpoint of our full year guidance range, we anticipate revenue of approximately $1.275 billion with an EBITDA margin of 14%. This guidance assumes we complete the sale of our Measurement Solutions business by the end of the first quarter. When excluding the impact of the sale as well as the exit of certain geographies and portfolio rationalization in the Americas, our Surface Technologies revenue is anticipated to grow approximately 5% year-over-year.

For the first quarter, we anticipate revenue to decline approximately 10% when compared to fourth quarter results, with an EBITDA margin of approximately 13%. We anticipate full year corporate expense of $115 million to $125 million. In 2023, the company initiated an ERP system upgrade. Our corporate expense now includes approximately $10 million in annual costs related to the implementation of the upgraded system. We expect to incur a similar cost each year until completion of the project in 2027. We anticipate capital expenditures of $275 million which is just over 3% of revenue at the midpoint of our guidance range.

Finally, we are guiding free cash flow for the full year to a range of $350 million to $500 million. This includes approximately $170 million for the remaining payments related to the resolution of all outstanding matters with the PNF. Excluding these payments, the midpoint of our free cash flow guidance would approximate $600 million.

In closing, when our guidance items are taken at the midpoint of the range, we anticipate total company EBITDA of $1.25 billion for the full year. This represents EBITDA growth of 33% versus the prior year when excluding foreign exchange.

I also want to stress that we expect to achieve this significant growth despite the impact of the strategic actions taken in Surface Technologies and the incremental spend related to the ERP system upgrade. This also infers a second consecutive year for free cash flow conversion of nearly 50% when excluding the settlement payments. And we expect this to drive growth in shareholder distribution of at least 35% and a further reduction in net debt.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Doug, I wanted to first start with the increase in your long-term or 3-year order guide. You raised that from $25 billion to $30 billion. I was wondering if you could comment on what drove the increase and perhaps give us a sense of how much of this was your expectations for more market share versus just the growing TAM in terms of Subsea and offshore FIDs.

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

Sure. Arun, it's really a combination of both. Clearly, both the total market size is increasing. And as you know, our -- the share of the market, we continue to enjoy an increasing share due to the unique offering that we provide. Look, what we are seeing is just giving us much greater visibility into the durability of the cycle and much greater confidence when we kind of risk weight opportunities. When you're in a direct negotiation, there is no competitive tender, as stated in my prepared remarks, which represents over 70% of our Subsea business.

You just, obviously, have a much higher ability to be able to properly risk weight those opportunities. You see the outlook slides that we provide and the markets there, the size of the market is there. It's solid. It's growing. It's just really -- we're in a privileged position, which -- we are humble about it. We are honored to have this position. And we offer our customers a clear line of sight to improve Subsea project economics that -- these are unique to our offering, both in terms of our Subsea 2.0 architecture and our iEPCI offering that reduces their cycle time by 12 to 14 months on the deepwater project. Best vastly improving their economics. So it's a privileged position to be in. One, we don't take lightly, and we continue to work really, really hard to deliver for our customers every day.

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

Great. My follow-up, Doug. We're intrigued by the Mero 3 project award. I know you announced this a bit earlier in the quarter. But I was wondering if you could just talk a little bit about some of the unique technology that you're bringing to table for this? And it seems like an application that could open a world of new opportunities just by taking some of the processing and separation to the sea floor. As you mentioned, it would perhaps reduce some of the needs at the surface, in terms of the design of the facility so top sides. So I was wondering if you could maybe comment on the technology and perhaps the scope here of future opportunities and what this could open up for FTI.

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

Sure, and thank you for the question. Because Arun, as it was announced earlier, we haven't had a chance to talk about it here in this forum. This was the first opportunity. So very excited, as I pointed out. I think it -- we said it's really, really unique both for the industry as well as for our company. And I think understanding, as you said, what are some of the -- there's the actual award and then there's with us what is enabled by that. So let's start with just some of the highlights.

Yes, one of the bottlenecks that we see in greenfield developments, as the offshore market continues to grow, will be the delivery of the FPSO. The FPSOs are complicated. And there are a certain number of providers of those FPSOs. And clearly, they are becoming, if you will, the long pole in the tent in terms of the project cycle time. Our approach to ensuring that deepwater economics remain privileged, i.e., through our customers' global capital spend is by really doing everything we can to in every way, address the cycle time as well as reducing the risk of delivering the projects and ensuring that they're delivered on time.

So an example of that would be the FPSO itself is an intriguing unit. But let's say the complexity is really in the top side's configuration that you put on top. And you do that because you either have to separate water from oil, or you have to treat the gas, or you have to separate in this case, a high CO_2-rich dense gas from the flow stream. If you can do that on the sea bed, it has many advantages. One, simplifying the FPSO, therefore, reducing that risk about becoming a bottleneck in terms of driving even further improvements in cycle time.

Secondly, there's obviously more real estate on the sea floor. We can do things, if you will, horizontally. Whereas if you're on a ship, you are pretty much constrained to doing things vertically. Any sort of vertical construction costs more than horizontal construction. So in the simplest terms, we just have more real estate to play with. And more -- and just as importantly than the economics is this is a CCS project. This is about reducing greenhouse gas intensity. This is about separating the CO_2 on the sea floor and reinjecting it into the subsurface. It never sees the atmosphere. It is at the bottom of the ocean on the sea floor in a closed-loop system where we can separate (inaudible) CO_2 and again, reinject the CO_2, hence delivering a much lower greenhouse gas intensity for the project.

And then I also mentioned, and I think it's important to point out, this is the first ever iEPCI, which is our unique commercial model, the integrated commercial model, the first time Petrobras is using this model. So you're absolutely right. We've done separation projects in the past. We've done boosting. This is a unique combination of advanced separation. The first time for CO_2 specifically as well as boosting and reinjection. And putting this all together into integrated system architecture is something that we are extremely proud and excited to be working on Petrobras to deliver this. And this is being done under the premise of design one, build many. So as you point out, this can start to open up all sorts of other opportunities as we move forward.

Operator

Your next question comes from the line of Dave Anderson with Barclays.

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

Just follow up on that on Arun's question on the Subsea processing. So Subsea processing, we've been talking about for a long time. I want to go -- if I go back to probably more than 10 years ago, you guys started introducing this. The cycle kind of ended -- if my memory serves, I think the cycle kind of ended before this really became -- before this really kind of took off. So maybe can you just talk about kind of what's different today about Subsea processing versus 10 years ago? Maybe this is the CCS part. And how effective was it before and kind of what's changing? I'm just kind of curious why the adoption today. You've talked about the FPSO, but I seem to recall that was kind of the whole kind of point of this in the first place. So why didn't I catch on before or maybe it did and why does it catch on now?

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

Dave, I wouldn't disagree. I would say the Subsea processing market has maybe underdelivered in the past to very blunt. What we're looking at here is a completely different application. And as you know, the greenhouse gas intensity, CCS opens up a completely different dynamic in terms of the thinking around sanctioning a project, okay? So let's just say it adds an additional dimension, which is one reason why we believe that this is a -- I would call it almost a new market. I wouldn't put it under the bucket of Subsea processing. Even though it's using many of the same technologies, there's multiphase pumps and separation, et cetera, but it is a unique application.

Secondly, there is unique technology involved here. And we've been working with Petrobras since 2016. We have an R&D Center for Subsea in Brazil, which gives us the unique ability to work closely with Petrobras in developing and bringing this technology to light. And then just our experience in terms of system integration and putting together the entire package gives us a reason to believe, Dave, that this application, again, and I'm going to go back to point one. When you add this other dimension into the project, if you will, sanctioning criteria, I believe it makes the decision -- leans the decision more towards the Subsea.

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

And as you're saying -- and it takes cost off the FPSO as well. Is that sort of the idea to help kind of lower the overall development cost of the project? Is that sort of the intent here?

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

Well, cost, but more importantly, it just is going to -- you can build an FPSO with a basic top side and a fraction of the time that it takes to build one with a full gas processing plant on top. It doesn't -- the time isn't in building the hull and building the storage and the unloading and offloading system. The time element is in the topside configuration, which, as you know, is often done at a different yard than the FPSO is made or at multiple different yards, then has to be all brought together, configured, assembled. You're building a floating, if you will, gas processing unit or refinery in a broad sense, just much more complex. So as you know, our whole focus, and it's why our customers, I think, are proud of what we're doing is we're going to help them improve their economics by focusing on shortening the cycle time. That's the real focus today.

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

Okay. And if I go back to the awards, your kind of 2-year outlook on Subsea awards out there. You've essentially kind of added about $5 billion in orders to your kind of next 2-year view. I'm just curious, in terms of your iEPC awards, you're saying 70% today, does that number go up over the next 2 years? And I'm assuming -- are you already working on these projects? I mean, is that kind of where your confidence comes from because I know this iEPC or would start at a very early stage. Is that kind of where this is all coming from? And if I could just pile on one more question in there. How is pricing evolving here? We're in a consolidated market now? Are we starting to show up -- is that starting to show up in the bids? Sorry, I packed a lot in there.

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

No problem, Dave. I'll try to address it as well as I can. So the 70% -- over 70% that we refer to as you know is the direct awards, which is a combination of those iEPCIs that are direct awarded. The most of ours are direct awarded. Very few go out to a competitive tender as well as our Subsea services and other direct awards from our alliance partners. The iEPCI portion for us is about 50% of our total. Do I see that increasing? Yes. What gives me the confidence and visibility is remember, they typically almost always in our case, start with an integrated FEED study, the integrated front-end engineering and design, which is 2 to 3 years out.

So what gives us the unique visibility is, one, we can see because we're -- when we're at the table much earlier, we are, in many cases, doing an integrated FEED study, an iFEED. Contractually, we don't do iFEEDs unless it will be direct awarded to us because it would not make sense for us to do it integrated FEED study, demonstrating the value of integration, if we weren't going to execute the project.

So in the front-end engineering studies, which are at a very robust level right now, the percentage of integrated FEEDs, which will convert into integrated EPCI studies continues to grow which, again, gives us that confidence. So we know the client, we know the basin. We know that working together, if we can achieve the economic -- the right economics for the project, then that will turn around and be direct awarded to our company. So I would say we have great confidence, as you know, when we give our inbound outlook. It's by project, by name. There's a great degree of confidence in the numbers that we put out there and our ability and consistent track record of delivering against them. So we have the visibility from the FEED studies. It gives us the confidence. We continue to see the direct awards going up. And I'll make one other kind of comment here for you, Dave. It wasn't part of your question, but I think it's interesting. Just this year, right? I mean we're not that far into the new year.

I will tell you the number of very large greenfield projects that we are already in the front-end engineering and/or commercial tendering stage or, let's say, commercial negotiation stage because, again, if they're a direct award, there is no tender. I've never seen anything like it. And it's -- the cadence and the size of the projects are really quite -- they'll be record. It will be one record after the next record. And by the way, I'm not counting the emerging countries in here, maybe at Tanzania, Colombia, et cetera. I'm not counting those. I'm saying this is within the traditional or known basins that we're operating in today. There's a lot of big projects coming, and we think we're working very closely with our customers to bring those light.

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

And Doug, is that incremental to the orders that you're highlighting for the -- out to '25?

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

Well, no, not necessarily. If we're -- obviously, if we're in direct negotiations today, it's probably going to happen before then. But you raised another good point, and I don't want to be too verbose here. But we are -- and I've mentioned this on past calls, this started about 9 months ago. Our clients want to secure our capacity. They understand what we have as a unique offering. And so they're not only talking to us about the current award, but in most cases, they're talking to us about the future phase or the future tie-ins or whatever it may be. So yes, part of it is in but yes, we are also looking and working on awards that will be coming beyond 2025.

Operator

Your next question comes from the line of Mark Wilson with Jefferies.

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

My first question, Doug, is on the subject of the additional awards and the $30 billion out to 2025. You've talked a lot in the past about the manufacturing process you've put in place as well to be able to deliver all the services you built. So can we talk about the -- if there's any impact to the expected margin from this additional, if not -- and larger market outlook? That's my first question.

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

Sure. Mark, so I believe you're going the angle of CapEx, and I'm going to go there even -- I hope that's where you wanted me to go. But look, because of the 2.0 in the configure-to-order, some of which I believe you've had an opportunity to witness yourself. It allows us to actually achieve these higher rates of throughput, within the existing facilities without having to spend additional capital. So as always, there'll be capital spend on replacing certain machine tools, et cetera. But in terms of roof flying capacity or major expansion or major capital investment to be able to deliver this growth, that is not the case. It will be within our normal CapEx expenditures.

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

And actually, what I was really looking is on the EBITDA margin, you'd be expected to generate, if we're not having to put in more investment. Are the economies of scale, frankly, from a higher throughput coming through within your margin expectations?

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

I would agree with that statement. Fully agree with that statement.

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

Okay. And then lastly, looking further ahead. And obviously, you've spoken to a lot of technology coming through the gas processing, Subsea separation, CO2 injection. There are new basins emerging. You're clearly bringing through things in Brazil, which has now been out there for a few decades now. But there are new basins coming through with new technologies. New levels have to go to certain kinds of depth and with gas processing. Where would you suggest that the industry is looking in terms of the next technological step? Is it in terms of going deeper, doing more with gas or indeed electrification, just generally?

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

So Mark, I'm laughing because you're spot on. It's as if you were in our technology review with our Chief Technology Officer, the other day. And the only thing I would add to what you said is one actually enables the other. So deeper and electrified are actually complementary. And electrification will allow us to go deeper. We've talked about electrification in the past, in terms of allowing us to have longer step-outs. But it's just the ability to be able to transmit hydraulic fluid and the response time because the further you push it, the more friction pressure, the more delays, if you will. And to be able to get a response from a hydraulic actuation versus an electric actuation, which can be done very, very quickly. So I would so certainly deeper. Now it is only electrification, but electrification will enable deeper but there's also other aspects to going deeper, particularly when you think about things like flexible pipe design.

We have the only flexible pipe that will be able to work at the depths that these emerging basins are being developed. It takes a very, very unique design. So there's other technologies that we're working on that will also be very beneficial as we move into some of the new basins, which indeed will be at greater depths than we've routinely operated at today.

Operator

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

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

Doug, maybe continuing on the sort of technology front. Just looking at West Africa. There are a few prospects in your list like Angola, Nigeria, that have been sat there for quite some time. I mean we know the operators have been really strict on getting those to a point where project economics are acceptable. So I was kind of wondering how many of those projects you've refreshed offers on recently or will in the near future? And if you found ways within your work scope through technology or something else to bring those costs down to enable sanction while still maintaining the attractiveness to yourselves?

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

No, a very fair question. When we look at often -- and I'm actually looking at the Subsea opportunity list as I answer your question. So first of all, as you know, to be on the list, there's an expectation that it would reach FID within the next 24 months. That expectation is aligned with the customer. And in some cases, projects aren't on here because they're confidential order projects that are going to be direct awarded to our company. So they're not on the list.

I will tell you, looking at the list right here in front of me, the same when you are I can confidently say all but one, as you said, are either going through a refreshed FEED study and/or are in at some level of a commercial negotiation. So actually, the vast majority of them. And I know -- I understand the point, and I know there's been -- some of these have been here a while and some of these have been discussed many times over. But just to be very blunt, that was before iEPCI. That was before Subsea 2.0.

So when you can deliver a project 12 to 14 months shorter cycle time, it has a big impact on the economics. Now there's other reasons that's specific to the client that they may be wanting to move a project forward, which is not anything I would comment on. That's the -- up to them to comment. But that's what we're providing to them to help bring these projects, at least, bring them to the stage that the customer could, if they chose to FID the project.

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

Yes. Makes sense. Maybe one follow-up on Brazil. I wondered if you had any comments on how your bidding strategy in Brazil may have changed just in light of one of your competitors being barred from contracting with Petrobras for the next few years. I mean do you feel you guys might be going for more work there or opportunities sufficient elsewhere?

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

Look, we are a company that has very close relationships with our clients. We always worked towards the future, not just at the present opportunity and treat our clients with respect as we expect them to treat us with respect. And we have a very strong relationship with Petrobras and very proud of the work we're doing, including the award of their first-ever iEPCI and the first-ever application of HISEP in Brazil. So I will just say that we continue to treat our clients the way that we appreciate them treating us, and we believe that is the right way to do business.

Operator

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

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

So kind of a bigger picture question for you, potentially right. So last June, you had referenced, you have increased visibility on potential projects that extend out towards the end of the decade. You continue to reiterate that in each and every conference call. Yet there seems to be a significant disconnect between what investors want to believe and what you are actually seeing predicated on the discussions, the game plan that your customers have. And it's probably the biggest disconnect I've ever seen in my 35 years in this business. So you've given a lot of input in commentary and data points around what you're seeing and what -- but what's driving the conviction of -- what do you think is driving the conviction of your customer base to pursue these projects for oil production that's going to come online in 3 to 5 years when everybody is freaking out about what oil demand is going to do. So what are the oil companies seeing that the investor base may not in your personal opinion.

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

Well, look, I don't -- Kurt, learned a long time ago as a service and not to speak on behalf of my clients. And so I'll just give you my perspective, not speaking on behalf of my clients and they may agree or disagree with me. But look, I think everybody has their long-term energy outlook. People understand the rate of change. Both in terms of the demand is going to go up and the rate of change of the energy mix. And I think when you look at those 2 through a realistic lens, you come to a conclusion that these are probably the right investments to be making to ensure that the world has access to reliable and dependable energy as we continue our journey forward.

These are solid projects with solid economics and are created now with the confidence they have because of what we have done as a company and by the creation of TechnipFMC, and our ability to deliver these projects consistently on schedule or ahead of schedule, which, again, is 12-plus months faster than anyone else can do it because they're doing it the old-fashioned way. It's just a very unique scenario to be in, and they have a much higher level of confidence, I would tell you, in our company. It's hard for me to say that. I wish they always did. But when we were all doing bespoke work like the rest of the market is doing today, you have confidence until something goes wrong because you've never done it before.

We're not doing bespoke anymore. We're doing configure to order versus engineered to order. So the level of confidence is there. We're giving our customers that level of confidence with their deciding in their investment decisions. I don't want to weigh in on. But I -- again, we'll just reiterate. We know the demand is going to be there. And as we move towards -- just the simple impact of artificial intelligence and the electricity demand that that's going to require, there's demand coming from all facets on the energy complex. And then you just have to make a decision based upon what is the realistic energy mix to be able to deliver that demand.

Our customers, I can tell you -- and I don't know that it's a disconnect. I'll maybe be a little less -- I probably appreciate your viewpoint, and I don't disagree with what you said. But look, I think people are quickly recognizing that this is the new reality, and we will just keep our head down. Execute -- inbound execute, continue to grow, continue to innovate, bring in other applications that will allow our business to continue to grow in both in terms of top line and profitability. And we've been extremely disciplined and good stewards of returning to our shareholders, and we'll continue to do so. So I think we'll just continue doing what is the right thing to do and confident that we'll be rewarded or continue to be rewarded for doing that, Kurt.

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

I appreciate that insight, Doug, now the follow up on that, right. So you've indicated that your iEPCI process and integrated processes reduce cycle time by 12 to 14 months and you do it faster than some of your competitors in similar time period. So is that maxed out? Or how much more can you reduce that cycle time? How do we think about that?

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

No. So it's a continuous innovation curve. Look, this isn't new. We saw this. This is what happened in the unconventionals. And when I was -- well back in the day when I was fracking, it was single stage, single well. And at most, you did 2 a day because you had a rig down, move to the next well. And we know then we went to 24 hours, then we went to simul-fracking, now trimul-fracking. So look, there will continue to be -- we're in the very early stages versus -- well, let me say it a different way. We saw that productivity curve, which was dramatic and very impressive, what was able to be accomplished in the unconventionals. Think about it, and Subsea is going to be no different. It's just we're in the very early stages of it. So yes, there will be more to come.

Operator

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

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

So I wanted to circle back on margins. So you're forecasting a robust 16% this year and then climbing to your 18% forecast in Subsea in '25. And Doug, you talked about 18% being closer to normal versus closer to peak. So now with this raised order intake outlook, how should we be thinking about the margin expansion potential into '26? Can we extrapolate that trend literally and then something close to 20% in '26? And would recent awards support that level of margins in a few years?

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

Scott, I had a look at my watch for a minute and just remind -- I had to remind myself what year we're in. Look, Scott, I appreciate the question. Clearly, kind of based upon the whole discussion we've had thus far on the call, the markets there, our position in the market is there. Our unique offering is there, the direct awards are there. We've just talked about that there is more leverage to come, both in terms of cycle time, which will improve project economics and improve the total available market. But also in terms of our own internal cycle time and benefit and leverage, if you will, as we go more so conversion to 2.0 in iEPCI. Neither of which are at 100% today and may never be exactly 100%, but will certainly be more than they are today. So look, let's just say, we remain very confident that we will continue on the path that we're on and have certainly, as we've said before, we've made comments like a major milestone on a more ambitious journey. And I really -- I just think it's fair if I stick with that kind of terminology today. But certainly no less confidence. If anything, even more conviction.

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

I appreciate it. I know the few years out, but I had to ask. I also want to come back to the Subsea separation. It's exciting to talk about again. Can you help us think about the content uplift for FTI by putting the separation and reinjection on the sea floor? I imagine there's a range based upon what is actually done on the sea floor and content of the production stream. But just kind of what's the reasonable range for us to think about in terms of content uplift?

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

Well, the way I would view it is we know that it's a $1 billion-plus award because that's how we classified it, right? So that was being done somewhere else, and if you will, on the top side today. So from an FTI, we don't do top sides or we do no engineering construction work whatsoever. So you just think of it at a minimum, you're taking a functionality that was being under the scope of someone else and putting it under the scope of FTI, and then we're putting it on the sea floor.

So that's kind of one aspect that I would kind of think about in terms of margin expansion. And again, if you say, well, what is the scale of that? Well, this is actually a brownfield project. It's not a greenfield project. So this is a brownfield project where you're seeing an incremental $1 billion-plus scope coming to our company as a result of this unique offering and capability. So that's -- you can't multiply that by very brownfield. But if you multiply it by just a few, that's a pretty dramatic uplift right there, Scott. And then the other kind of interesting thing and I alluded to when I said it was a brownfield versus a greenfield, but this is a $1 billion award that doesn't include a single Christmas tree. So we've often in the past, always thought about trees, and the trees -- tree count. There's a $1 billion award without a single tree. It really shows how this market is expanding in a very favorable way for the industry but also for our company.

Operator

Your next question comes from the line of Bertrand Hodee with Kepler Cheuvreux.

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

Doug. Two questions, if I may. So how should we think of your 2025 Subsea intermediate guidance when it comes to revenues? You had in mind, $8 billion. Are you ready to give us an uplift to that? And then the second question is on the free cash flow for Q4 was extremely strong. But you may have received a lot of down payment as now when I look at the balance sheet, your net contract liabilities are now close to $500 million as it was close to 0 in previous quarters. So how should we think of this item going forward?

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

Sure. Bertrand, I'll touch on the 2025 question, and then I'll turn it over to Alf, if he wants to add any color, and then he can touch on the free cash flow as well. So on the 2025. Look, we updated our inbound target through the end of 2025. That, obviously, gives greater conviction in the numbers that had previously been shared around 2025. And I'll let Alf maybe give you a little better view of kind of at a total company level, what one could expect. But there are some things happening in our surface business as an example. And -- but there's also -- meaning the sale of the business and the implications but there's also some positive things happening on the Subsea side. But without giving any specific commenting specifically to the revenue target, I think we can give you directionally something very compelling. I'll pass it over to Alf.

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

Yes. Thanks, Doug. Maybe just putting in context the subsea situation. Really, we're coming off a strong growth in earnings this past year. We're looking forward to another strong year in 2024. We saw our backlog grow 50% and not only did the backlog grow, the quality of that backlog grew. We are building strong average margins in the backlog. And then on top of that, you are -- we are upgrading the $25 billion previous target to $30 billion. And lastly, couple that with the positive momentum in our Subsea services business. All that adds up really to having just greater confidence overall in the Subsea outlook. And what Doug was talking about, I may call it a little bit similar to 2024. We do expect the lower service revenue due to the measurement solutions sale as well as some of the business rationalization we've done over the last 12 to 18 months. And clearly, we will expect to offset that by a higher relative earnings mix coming from Subsea in 2025.

And maybe I skip the free cash flow question. So let me get back to that. So first of all, you probably noted that part of the Q4 inflow, they indeed come from advanced -- not necessarily advances, but us achieving milestone and progress payments on our Subsea business. And I don't necessarily consider it as a negative to build the contract liabilities activity that's a positive that we actually can run our business on a very neutral working capital basis for the whole company. So when you look forward, I certainly don't expect same kind of, call it, build in contract liabilities, but I do expect us to continue to be neutral to positive, slightly positive in the working capital for the next year.

Operator

Your last question comes from the line of up Saurabh Pant of Bank of America.

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

Doug, if you don't mind, I think I don't remember if you said this or Alf said this in the prepared remarks but Subsea revenues were really strong in the fourth quarter. And I think you noted the accelerated conversion of backlog in 4Q but can you comment on if that's project-specific one-off timing specific thing in the fourth quarter? Or is that a trend that we should be mindful of, in terms of the timing of converting backlog into revenue going forward in Subsea?

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

Sure. Obviously, a good story, and I'm going to let Alf tell the story.

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

So first of all, you're absolutely right. We did have, indeed, a very strong revenue quarter in Subsea, basically holding flat to the prior quarter. And partly that is due to actually experiencing less of the typical seasonal factors that we do have as headwinds going from the third quarter to the fourth quarter. But we also did have some projects that accelerated revenue more than expected. And I would -- that includes a mix of what I want to term legacy projects that are executed out of the backlog. And hence, maybe you also saw that the margin mix was not necessarily positive for the quarter. But it really was nothing that would affect the guidance that we have given forward looking, including anything we have talked about how our backlog will evolve over the next 2 years.

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

Okay. Awesome. And then just one more. I know we spent a lot of time on Subsea processing today, but maybe an unrelated technology question. You also won the Sparta Project recently. And I think if I'm not wrong, this is only the third 20K psi project in the Gulf. I think (inaudible) into our -- were the other ones, (inaudible). How should we look at the opportunity? Because there is a good pipeline of these high-pressure projects in the Gulf. How should we look at that opportunity going forward, Doug? And how can FTI benefit from that?

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

Excellent question. Spot on. Lower tertiary Gulf of Mexico, high pressure, clearly is starting to move forward. We were excited to get the first award, which was the Shenandoah Award, as you pointed out. So Sparta for Shell will not be our first delivery of 20K but it will be the first 20,000 iEPCI project. So super excited to have that as well and set that new milestone. Look, going forward, as you know, Chevron has assets -- Shell has assets, BP has assets, Beacon, LLOG, both have assets. Most of which are, we think, high probability of additional projects going forward. So yes, we don't speak to it as a new frontier, but it certainly is a new horizon within an existing frontier.

Operator

And with that, I will turn the call to Matt 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 reach out to anyone on the Investor Relations team. Thank you for joining us.

Sarah, you may end the call.

Operator

Thank you. This concludes today's conference call. Thank you for joining. You may now disconnect your lines.