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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*

Ian MacPherson *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Marc Gregory Bianchi *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

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

Nikolaos Konstantakis *BNP Paribas Exane, Research Division - Analyst of Oil and Gas*

Taylor Zurcher *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Executive Director of Energy Services & Equipment Research*

PRESENTATION

Operator

Hello, and welcome to the TechnipFMC Fourth Quarter 2021 Earnings Conference Call.

(Operator Instructions)

I would now like to turn the call over to Matt Seinsheimer. Please go ahead, sir.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Lisa. Good morning and good afternoon, and welcome to TechnipFMC's Fourth Quarter 2021 Earnings Conference Call. Our news release and financial statements issued yesterday can be found on our website. I would 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. 2021 was truly a breakout year for TechnipFMC. We are confident that we have entered a multiyear upcycle for energy demand with continued strength in inbound orders expected for our company through at least 2025. 2021 marked the inflection in order activity, with total company inbound awards growing an impressive 33% versus the prior year to $6.8 billion. Total company full year adjusted EBITDA was $580 million, with an adjusted EBITDA margin of 9.1%, a 300 basis point improvement on the prior year. Free cash flow from continuing operations was $523 million, more than double the high end of our guidance range.

Beyond this much improved financial performance in 2021 were several notable accomplishments. We started the year with a partial spinoff of Technip Energies, successfully creating two industry-leading companies. Since the time of the separation, we have sold the majority of our remaining stake, generating proceeds of more than $1 billion. When combined with our strong free cash flow, these sales have contributed to a significant reduction in net debt, which declined nearly 70% over the course of the year to $678 million at year-end. As an industry-leading pure-play company, we concluded the year by hosting our Analyst Day, providing a comprehensive update on the path forward for TechnipFMC. During the event, we highlighted the tremendous success of iEPCI, the industry-changing commercial model we introduced just 5 years ago, which has strengthened our offering, expanded our alliances and positioned our company as the subsea partner of choice.

We demonstrated how we are continuing to drive change with industrialized product suites like Subsea 2.0, which are transforming how we operate our business while also lowering the carbon footprint of conventional oil and gas developments. We introduced New Energy Ventures, which will position TechnipFMC as a key player for the development of novel sources of offshore energy as well as carbon transportation and storage.

And lastly, we provided our longer-term view of the energy market, which serves as the basis for our intermediate term financial outlook that extends to 2025 and illustrates the significant long-term potential we see for TechnipFMC across both traditional and new energy markets.

Turning to segment inbound, the order momentum experienced in 2021 extended across the company, with Surface Technologies full year inbound increasing nearly 70% versus the prior year to $1.8 billion. Orders outside North America more than doubled when compared to 2020. This included a significant portion of the segment's largest ever award, a multiyear contract from Abu Dhabi National Oil Company to provide wellheads, trees and associated services. This contract is a resounding endorsement of our 40-plus year relationship with ADNOC.

The Middle East represents one of our largest market opportunities this decade. Under the frame agreement with ADNOC, TechnipFMC will further grow in-country talent, and expand existing manufacturing, assembly and test capabilities in Abu Dhabi in order to deliver the company's complete portfolio of surface wellheads and trees locally. This follows the recently completed expansion of our manufacturing capabilities in Saudi Arabia, which supports our commitment to develop a diverse and capable local workforce as part of Saudi Aramco's In-Kingdom Total Value Add Program, or IKTVA and Saudi Vision 2030.

In North America, our recently launched digital solution, eMission is the next level of optimization for surface production facilities. Using process automation and data, the system provides constant monitoring and adjustments in real time to minimize flaring by up to 50% while maximizing oil production. The technology is core to our iProduction offering and can be applied in existing facilities globally.

Turning to Subsea. Full year inbound orders of $5 billion increased 24% versus the prior year. We experienced further adoption of iEPCI in the year, including further geographic expansion. Operators using the integrated approach for the first time included Karoon, whose Patola field will be our first iEPCI in Brazil; Tullow, which utilized our Subsea Studio digital solution to optimize field layout for the Jubilee development in Ghana; and Petronras, which will utilize both iEPCI and our Subsea 2.0 platform for the Limbayong Deepwater Development Project offshore Malaysia. The improved inbound orders in the year also reflected continued strength in South America.

In Guyana, we were awarded the subsea production system for ExxonMobil's Yellowtail development, our fourth consecutive award within the Stabroeck development. In Brazil, we further strengthened our relationship with Petrobras, announcing several awards in the year, including three long-term vessel charters, which will serve the Brazilian market for multiple years; a contract to supply subsea manifolds utilizing our second-generation all-electric robotic valve controller for the Marlim and Voador fields; an award to supply equipment and services for the Buzios 6-9 fields; and 3 frame agreements for the manufacture of more than 500 kilometers of flexible pipe over the next 4 years.

For the full year, iEPCI, direct awards and subsea services represented more than 60% of our total inbound, a testament to our innovative leadership, intimate client relationships and strong track record of execution. Importantly, these orders often provide us with a unique opportunity set that goes beyond the publicly identified projects and speaks to both our market positioning and industry relationships, providing TechnipFMC with the most comprehensive view of the market.

Our subsea opportunity list has expanded to a record level of more than $20 billion, providing increased visibility into the middle of the decade. The continued growth in part reflects the very robust front-end activity experienced throughout 2021. Given the extensive opportunity set and our strong visibility, we remain confident that we will see a multiyear subsea up-cycle with the potential for inbound orders to reach $8 billion in 2025.

Looking more closely at 2022, our early engagement in client partnerships supports our view that subsea tree awards for the total industry are likely to exceed 350, a level not experienced since 2013. We anticipate subsea inbound order growth of up to 30% in 2022, with iEPCI direct awards and subsea services approaching 75% of our inbound orders. Our growth expectations also highlight continued expansion in greenfield opportunities as well as increased tieback activity with growth from these smaller projects coming primarily from the North Sea, Gulf of Mexico and West Africa, all regions in which we have a strong presence and are well-positioned due to our extensive installed base.

With this higher level of activity, we also anticipate an acceleration in the market adoption of Subsea 2.0. We estimate 50% of our subsea tree orders over the next 2 years will be 2.0, and this will provide us with the volume needed to leverage a Configure To Order, or CTO operating model.

While not a new concept, CTO is revolutionary to our industry and allows us to leverage the efficiencies of standardization while still addressing the unique requirements of individual projects. All of which can be selected from a product catalog that unlocks efficient manufacturing and servicing of our equipment. CTO has enabled us to create a value stream that delivers a more competitive offering to the market, resulting in a 25% reduction in cost, a 50% reduction in product delivery time and manufacturing throughput that has more than doubled within our existing footprint.

Looking beyond CTO, which is all about how we operate our business, we continue to pave the way forward with the introduction of new subsea technologies, including all electric systems. Electrification offers advantages to all subsea wells and is particularly well-suited for the development of long tiebacks, gas fields, water injection and carbon transportation and storage.

In subsea services, we expect revenue growth of approximately 35% by the end of 2025. This growth will be driven by market expansion, new technology introductions and other commercial initiatives. Our revolutionary Gemini, remotely operated underwater vehicle, is transforming the ROV industry through disruptive technology and delivering optimized performance. Our first two Gemini systems were successfully deployed with Shell, and based on this success the client has awarded us contracts for three additional Gemini systems. We are now expanding this service across our customer base.

Additionally, our integrated Life of Field model is designed to unlock the full potential of subsea infrastructure by transforming the way services are delivered and proactively addressing the challenges faced over the life of a field.

Looking further ahead, we are confident that oil and gas will remain an important part of the energy mix for an extended period of time. While this view is supported by the outlook for higher global energy demand, we also recognize that we are in the early stages of the energy transition. To address the evolving markets, we recently announced the formation of New Energy Ventures or NEV, where we are leveraging our core competencies, capabilities and investments made over the last several years. We have appointed a dedicated leadership team, who has extensive industry knowledge, and are focusing on our contribution to the energy transition through three main pillars: greenhouse gas removal, offshore floating renewables, including wind, wave and tidal energy, and hydrogen. In these target areas, we see a total addressable market of close to $80 billion for TechnipFMC by the end of 2030, and we anticipate NEV inbound orders of $1 billion through 2025.

In order to accelerate our growth, we are leveraging our extensive experience in project integration, to approach these opportunities with a new execution model, integrated offshore novel energies or simply iONE. We have demonstrated our ability to successfully collaborate with key industry players over the last year. We have made announcements regarding several strategic agreements and partnerships, some of which have already resulted in real project opportunities. In greenhouse gas removal, last year, we entered into a long-term strategic alliance with Talos Energy to develop and deliver technical and commercial solutions for carbon capture and storage projects along the United States Gulf Coast, where FEED activity has been initiated on multiple projects.

As for Offshore renewables, we announced just last month that our partnership Magnora Offshore Wind was successful in the ScotWind leasing round application, where the proposed development project will have a total capacity of approximately 500 megawatts, which could power more than 600,000 homes in the United Kingdom.

And today, we are announcing a hydrogen storage MOU with Storengy, a subsidiary of ENGIE, which has the potential to accelerate the development of a ready-to-scale-up solution for the underground storage and utilization of green hydrogen across Europe. We are making solid and tangible progress and are fully committed to playing a meaningful role in this challenging yet exciting period of transition. We believe we have the right competencies, resources and teams to make this a very successful journey. And we are confident that as the energy transition accelerates, so too will the opportunity set for TechnipFMC.

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

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

Thank you, Doug. At our Analyst Day in November, I reiterated our increased focus on cash, both cash generation and capital discipline, which we believe are essential to increasing shareholder value. I am proud of the efforts made across the organization as we delivered strong free cash flow of $423 million in the quarter, and a much improved balance sheet, with net debt declining to $678 million at the end of the period. I will spend more time on these topics shortly, but let me first provide a broader recap of our results.

We finished the year strong with total company inbound orders of $2.1 billion in the quarter. Subsea inbound was $1 billion, putting full year orders at $5 billion, an increase of close to 25% versus the prior year. Surface Technologies achieved inbound of $1.1 billion, which included the multiyear award from ADNOC. Full year inbound was $1.8 billion, an increase of nearly 70% from last year. Total company backlog was $7.7 billion at the end of the period.

Fourth quarter total company revenue was $1.5 billion with adjusted EBITDA of $130 million. For the full year, we delivered on segment guidance for both Subsea and Surface Technologies. Fourth quarter reported loss from continuing operations was $0.28 per diluted share, which included after-tax charges and credits that netted to an expense of $71 million or $0.16 per share. These charges included the following: expenses totaling $42 million related to impairment, restructuring and other charges. The majority of these charges relates to the continued optimization of our global footprint; and a loss of $30 million on our equity ownership in Technip Energies, which primarily relates to the unfavorable change in fair market value during the period. When excluding the impact of these charges and credits, our adjusted loss from continuing operations was $0.12 per share. The adjusted loss included a loss on an early extinguishment of debt of $22 million and a Foreign Exchange gain of $5 million.

Turning to the segment results. In subsea, revenue was $1.2 billion, down 6% from the third quarter. Adjusted EBITDA was $124 million with an adjusted EBITDA margin of 10%, a sequential decline of 120 basis points. Both revenue and adjusted EBITDA were negatively impacted by reduced product activity in Africa and Australia and the seasonal decline in services activity, particularly in the North Sea.

In Surface Technologies, revenue, up $287 million, increased 7% from the third quarter. Results benefited from increased activity internationally and the continued recovery in North America. Adjusted EBITDA was $29 million, a 2% increase sequentially. Results benefited from improved operating performance in North America, partially offset by investment in new international manufacturing capacity. Adjusted EBITDA margin was 10.1%.

Turning to corporate and other items in the period. Corporate expense was $30 million, which included $2 million of restructuring and other charges. Net interest expense was $34 million and tax expense was $39 million. Cash from continuing operations was $484 million, which benefited from strong performance in customer collections in the period. Capital expenditures were $61 million. Free cash flow from continuing operations was $423 million in the quarter and for the full year was $523 million.

We ended the quarter with cash and cash equivalents of $1.3 billion. We reduced gross debt by $251 million, sequentially. Net debt at the end of the quarter was $678 million, a reduction of nearly 70% since year-end 2020.

During the year, we sold approximately 75% of our stake in Technip Energies for proceeds of $901 million. In January of this year, we sold an additional 9 million shares for total proceeds of $135 million. As of today, we retain a direct stake of 12.9 million shares or 7% of Technip Energies' issued and outstanding share capital. Moving to our full year 2022 outlook. In subsea, we are guiding for revenue to be in the range of $5.2 billion to $5.6 billion. Backlog scheduled for execution in the current year is $3.4 billion. Subsea services revenue is expected to grow to approximately $1.2 billion, the majority of which is not included in backlog today.

Taken together, over 85% of revenue at the midpoint of our guidance is fully supported by scheduled backlog and services. In 2021, we delivered a 200 basis point expansion in subsea adjusted EBITDA margin, and we are confident we will see an improvement again this year. We expect adjusted EBITDA margin to be in the range of 11% to 12%, a further 100 basis point increase at the midpoint of the range.

Notably, we are expecting continued margin improvement even when assuming the midpoint of our revenue guidance, which implies essentially flat revenue versus the prior year. This highlights that changes we have applied to our business model are translating into improved operational and financial performance.

For Surface Technologies, we expect revenue in the range of $1.15 billion to $1.3 billion, an increase of 14% at the midpoint. We expect North America, which represented just over 35% of revenue in the fourth quarter to grow at a faster rate than the overall segment. We expect adjusted EBITDA margin to improve to a range of 11% to 13%. This guidance considers that our investment in new international manufacturing capacity in support of the strong Middle East outlook will continue to be a headwind in the first quarter, with a reduction in EBITDA margin of approximately 100 to 200 basis points versus the fourth quarter.

I will now highlight several of our other guidance items. We expect net interest expense of $105 million to $115 million, an improvement of approximately $30 million versus 2021, driven by further reduction in debt. Capital expenditures are expected to be approximately $230 million or 3.5% of revenue at the midpoint of guidance. Free cash flow, which we define as cash flow from operations less capital expenditures, is expected to be between $100 million and $250 million for the full year.

Similarly, to 2021, we expect free cash flow to be weighted to the second half of the year, with the first quarter expected to see a net outflow due to the payment of annual incentives and timing of working capital consumption. Full year free cash flow in 2022 assumes only a limited use of working capital, therefore, sustaining the improvement we achieved in 2021. When all of these items are taken together, our 2022 guidance at the midpoint implies adjusted EBITDA of approximately $670 million, a year-over-year increase of 15%.

I will now turn the call back over to Doug for a few closing remarks.

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

Thank you, Alf. Before moving to Q&A, I want to reiterate our view of the intermediate term outlook. The inflection for the energy markets is here. And we also believe this cycle is different in a way that will accelerate its impact on our company. Since 2015, offshore economics have materially improved and subsea cycle times have become significantly shorter. This has resulted in new subsea investment coming much earlier in the cycle and more in parallel with U.S. land markets. We believe these changes are fundamental and sustainable as a result of new business models and technology pioneered by our company.

Importantly, TechnipFMC is well positioned for the anticipated activity growth given our leadership in both Subsea and the Middle East. And the acceleration across these markets has created a multiyear up-cycle in our business. We are confident that this outlook, combined with the changes we have made to our business model, will translate into improved operational and financial performance.

Subsea EBITDA margins of 10.5% in 2021 were 200 basis points above the prior year, with margins set to improve an additional 100 basis points to 11.5%, at the midpoint of our 2022 guidance. The timing of our Subsea margin expansion is particularly noteworthy, occurring much earlier in the recovery than in previous cycles, further supporting our goal of achieving 15% margins in 2025. Our strong project execution and continued industrialization of our operations leaves us well positioned to see improved EBITDA across the entire portfolio, including the potential for Subsea EBITDA to nearly double by 2025 with several of the key drivers firmly within our own control.

This along with our emerging role as the offshore architect for the energy transition will allow us to thrive in both present and future energy markets. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Ian MacPherson with Piper Sandler.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

So I was curious about the -- sorry, I had some feedback on my phone. Curious about the outlook for orders. If you're going to deliver -- you expect to grow subsea orders roughly 30% this year. That sounds like a modest upgrade to the prior guidance, which was $7 billion over the 5 quarters, including this past quarter. And the 2025 target of $8 billion would therefore imply a much lower growth rate from '22 through '25, which sounds like maybe just some conservatism, but I wanted to get thoughts around that question. And I know also you haven't removed it from your deck, but we do know that Bonga has slipped again, at least according to popular press and maybe that's less prospective now for 2022. But any thoughts on how the rest of your pipeline has seemingly warmed up or maybe become higher probable for this year, excluding Bonga?

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

Okay, Ian. So -- let me start with the numerical part of the answer. So it is -- when we gave the $7 billion of guidance over the next 5 quarters, that was Q4 plus the 4 quarters of 2022, realizing we were coming off of a year where we had $4 billion of inbound, and we were anticipating to be in the range of at the time around $4.5 billion to $4.7 billion of inbound for 2021. And you correctly point out, we delivered $5 billion in 2021, which, again, was a 24%/25% increase over the prior year. And now we're looking at an additional 30% increase this year, taking us into the range of the $6.5 billion.

So I guess the $7 billion over $5 billion became $6.5 billion over $4 billion which is pretty impressive, actually, given where we have been and the growth rate is quite phenomenal.

Looking ahead, yes, at Analyst Day, we laid out $8 billion in 2025. Could that be pulled forward? Absolutely. Are we changing that view at this time? No. But we are very confident in delivering the $6.5 billion for 2022.

Moving on a little bit to the -- maybe some of the big puts and takes on the Subsea opportunity list, which, by the way, that list expanded to $20 billion, up from the record $19 billion last quarter. You mentioned Bonga, I would agree it's probably not a 2022 event. Where do we see things warming up? Clearly in South America, it's already very warm, and it's getting warmer, and we see things being accelerated and pulled to the left.

We'll see -- likewise, we'll see some increased activity, particularly in the Norwegian sector of the North Sea. Also, we see things really warming up, both in Asia Pacific, particularly in Malaysia as well as in Africa. And we see things being -- we're being asked to accelerate, bring things forward at a pace and cadence that I will tell you, we've not experienced for a very long time.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

That's great. And none of that sounds surprising at this point given the state of play in the markets. On the surface side, congratulations, by the way, on the big ADNOC award. I don't know if I missed this in the prepared remarks, but have you described how much of that was reflected in the Q4 bookings, I don't think all of it was.

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

So as far the impact to Q4 was minimal as far as the inbound. The way that we inbounded that project was we only inbounded about 50% of the total project value, so there will be more to come in the future.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Perfect. That's what I was looking for.

Operator

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

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

Two questions, if I may. The first is -- on the guidance for 2022, could I ask how depreciation looks year-on-year? Do you think that will be lower than the past year? And then the second question is on market share. Of that 350 wellhead estimate you talked about for the total market, would you be able to opine what you expect your market share to be for that? And how would that would compare with -- okay, it's almost 10 years ago, but the 2013 you speak to as FMC Technologies.

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

Sure. So let me -- I'll take the market share question, and then Alf will cover the question about the 2022 depreciation. So look, we don't talk about market share. First of all, we don't really talk about tree count, so let me start there. You did -- thank you for pointing it out. We haven't talked about it in a long time actually since we created TechnipFMC. As I say many times, we do much more than just deliver trees these days. And because of that, we like -- that's why we like to talk about the subsea opportunity set. We give you total contract values. We try to give much more visibility than the subsea tree number alone. A matter of fact, I don't recall [that], but I bet it's been about 4 years since I've talked about the Christmas tree count.

So why did we? Look, there's a level of misinformation out there that we felt needed to be rectified. And as the market leader and it's kind of beholden upon us to do that. So that's why we came out with the 350 tree count. We're going to be well above pre-pandemic levels. And again, going back almost a decade since we've seen this level of activity. A couple of interesting things have happened in that period of time as well. I would say approximately 30% to 40% of the total manufacturing capacity no longer exists. So we, along with our competition, have all removed a material portion of our total manufacturing capacity.

So what that means is we're in a situation right now where it's very favorable in terms of the economic value to our company. And more importantly, our ability to be able to continue to grow whilst removing manufacturing capacity, how is that possible? Well, that's the whole Subsea 2.0 story, which began back in 2017. And that's the CTO or configure-to-order story, which started at our Analyst Day this past November, where we really laid out how we're now able to double the capacity through a much smaller manufacturing footprint.

So in other words, our demonstrated capacity has remained constant. Our throughput, our ability to be able to deliver has remained constant. That's obviously not the case for the others who have removed the capacity, which was the right thing to do. We did the same, but don't necessarily have the volume or the scale or the technology platform to be able to leverage in the CTO model. All that to say, our market share is certainly going up.

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

Yes. Mark, this is Alf here. Just coming back on your depreciation and amortization question. It's basically going to be very flat year-over-year. So no market difference in what you saw in 2021.

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

Got it. Okay. And just to maybe expand on it. You spoke eloquently to the CTO model, Doug, and efficiencies in the manufacturing process and the whole system dynamic. I look at the guidance at '22 and the immediate thing I look at is, can you produce a positive bottom line net profit out of this business in '22? Given what you said on depreciation there, Doug, it sounds like if -- sorry, Alf, if exceptionals will be at a low level then there's a good chance of that. Would you expect the business to return to profit bottom line in '22?

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

Yes. We are projecting a positive net income at the bottom line for next year. And yes, the amount of unusual charges would come down overall from where we were in 2021.

Operator

Your next question comes from the line of Arun Jayaram with JPMorgan.

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

Yes. Doug, FTI generally perceived as a late-cycle stock. Clearly, the OFS playbook has been to focus a little bit more on the short cycle NAM names. One of the interesting things you mentioned is just a decline in subsea cycle times that you're seeing perhaps things more consistent with U.S. land I was wondering if you could maybe offer some proof points to kind of corroborate this view? And how are -- and maybe some of the differences that you're seeing this cycle in terms of subsea orders versus in past cycles?

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

Arun, thank you very much for the question, and thank you for picking up on that in the prepared remarks. It obviously was one of the key messages we wanted to deliver today. I realize that there's -- a lot of people reflect on kind of the historical trends, et cetera. And in doing so, it is true that more of the NAM leveraged stocks tend to benefit first before the offshore us to really take off in a cycle. Obviously, the offshore stocks have a longer tail and benefit when things slow down. They're not nearly as abrupt as what happens in U.S. land. But it is different, this cycle. We hope that already the numbers that we're reporting and putting in front of you demonstrate that. Our growth rate is that of the growth rate that's being experienced in the Permian Basin, number one.

We're seeing margin expansion that we would typically have not seen until the second or third year of a cycle, we're seeing that margin expansion now, speaking of subsea 300 basis points total between last year and the midpoint of the guidance for this year and more to come.

So it's happening. It's real time. Internally, we -- our kind of image is there was always the U.S. land train that left the station a bit earlier than our train left the station, but they've left at the same time. And if there's a message we really want to pass is our train's left the station, the momentum is building. And we hope that, that is something that the investment community now we've given all the data between the Analyst Day and what we've now given for the 2022 guidance, I think, given a very clear trajectory of what's happening. And you can look at it by customer CapEx spend, you were asking for proof points. We've looked at that. If you look at the customers who have both let's say, exposure to the U.S. land market and the offshore market, kind of where are they putting the majority of their CapEx growth. It's pretty clear.

The offshore has a lot of very strong attributes particularly in this part of the energy cycle, you've got a lower greenhouse gas footprint. These are some of the lowest greenhouse gas barrels that you can produce, some of the most prolific reservoirs that you can produce and a relatively stable regulatory environment certainly compared to other areas.

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

Great. My follow-up, Doug, you guided to 2022 subsea revenue of, call it, $5.4 billion at the midpoint and then EBITDA margin, call it, 11.5%. At the Analyst Day, you provided 2025 outlook of $7 billion in subsea revenue at a 15% margin. So as we try to connect the dots between '22 and 2025. I mean do you expect the interim period '23 and '24 to be more linear? Or how do you think of the shape of your -- of the profile revenue and subsea margin profile between the two areas, 2022 and 2025?

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

No, thanks. I'll pivot back to the answer that -- the question that Ian asked and kind of the way I answered it, hopefully gave some visibility into how that shape could develop. Again, we're not giving '23, '24, '25 guidance. We've -- obviously, we've just given '22 guidance. Back in November, we gave '25. So you have the two goalposts now. It's a fair question. But if you reflect on what I said, Ian, that we're seeing a level of an intensity of our client conversations at a level that I've not experienced in a very long time in terms of acceleration, acceleration, acceleration. So I'm not sure. I don't -- if there's one thing, it will never be linear, but I think if you go linear, there's probably upside to that.

Operator

Your next question comes from the line of Taylor Zurcher with Tudor, Pickering and Holt.

Taylor Zurcher - *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Executive Director of Energy Services & Equipment Research*

My first one is on capital allocation. So a big free cash flow number for Q4 and really for the full year of 2021. I imagine net debt is lower than what you were anticipating exiting the year, at least relative to your prior guidance. And at the Analyst Day, you talked about paying down gross debt to -- reducing gross debt to $1.3 billion. And a shareholder return sort of catalyst coming in the back half of 2023. And I just wonder, I guess my question is with the strong Q4 free cash flow performance, has anything changed there with respect to capital allocation around shareholder returns? Or is the plan still to reduce gross debt to $1.3 billion before doing anything? Or is net debt getting or nearing a position where you might accelerate that time line?

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

Thank you, Taylor. I would agree with you that the ability to reduce -- the rate or the cadence at which we've been able to reduce the net debt is we're extremely proud. And 70% reduction and a lot of positive momentum gives us great reason for confidence. And I don't want to steal any of the joy from Alf, who is very happy these days. So I'll pass it over to Alf to complete the answer.

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

Yes. Thank you, Doug. So -- so clearly, we are very pleased with the Q4 free cash flow generation. It really exceeded our expectations and is putting us in a great position now with a net debt below $700 million. And as you point out, well on path to the target capital structure that we indicated at the Analyst Day, which we said would be cash around $800 million and debt of $1.3 billion. So really great progress for us here.

In terms of capital allocation, in general, I would say we remain committed to both debt reduction and shareholder distributions in line with what we said there. When you think about reduction and more deleveraging, we still have $700 million to go to get to the $1.3 billion that we indicated.

So Obviously, this will still be a focus area for us. We will expect to do our debt servicing to schedule this year. That's about $200 million. And then we will obviously review options to further tender for outstanding debt where it's economically beneficial to do so.

And as a reminder, also on our most expensive senior notes that we do have a call provision for that in the first quarter of 2023. If I go further and just talk a little bit more about the shareholder distribution specifically, and again, referencing back to Analyst Day, we did say that we are indicated to initiate a sustainable dividend as part of -- targeted really for the second half of 2023. But we also said that opportunistically, we would review share buyback as a supplement for bringing value -- further value to our shareholders.

So clearly, as we have this improved cash flow, we will certainly evaluate options for initiating distributions slightly ahead of that time line in the second half of 2023, and including entertaining share buybacks if so it becomes an option. But the basic criteria is still that we have the providing that we have the metrics in place to really continue to have long-term favorable access to credit. So we don't want to lose sight of the deleveraging that we need to do first, while also retaining some flexibility to reinvest in our business as we continue to be on this growth cycle. So hopefully, that helps you a little bit.

Taylor Zurcher - *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Executive Director of Energy Services & Equipment Research*

Yes, it does. And just a follow-up unrelated on supply chain. A lot of your peers are still struggling through a number of supply chain-related issues. And I imagine you're dealing with a lot of the same issues today, but not readily apparent in the numbers for the back half of 2021 or in the guidance for margins in 2022. So just curious if you could give us an update on all things supply chain related? Are things getting worse as we enter 2022? Or have some of the issues you've been dealing with kind of flatten out? Just curious on all sorts of topics there.

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

Taylor, thanks. As you said, that's a pretty broad topic. And thanks for noting our performance in the environment. Look, we're not immune to the environment. But we believe it's our responsibility to manage through the environment. And we were -- things were thrown at us in 2020 that nobody anticipated, and there's been ramifications directly associated with that, but also other challenges that supply chain challenges, logistics challenges, et cetera.

So kind of just imagine for a moment, the momentum that we're demonstrating against those headwinds. If the winds just calm down or we get a bit of a tailwind, just imagine the earnings potential of this company. And that's why we're so proud. That's why we don't call it out every quarter. We just manage through it. But there is no doubt. Guidance would be higher, operating results would be better if we weren't faced with the challenges. But it's our job, and we owe it to our shareholders to manage through that and deliver the progression that we've been able to deliver and just maybe stop for a minute and reflect on how much better it could potentially be if we weren't facing some of those headwinds. So thanks, Taylor, for pointing it out.

Operator

Your next question comes from the line of Marc Bianchi with Cowen.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

I guess, Doug, you mentioned trees. So I'm going to ask more about trees. This may be the last time we talk about it on a call for a while. The 2013, looking back, I think the industry awarded something like [550] or that was the estimate at the time. You mentioned that a bunch of capacity has come out. But I think along that discussion, you also mentioned that your efficiency and your ability to kind of do more with less has also improved. And I would suspect that's the case for your peers.

Can you just kind of walk us through how the competitive dynamic has evolved over the past couple of years? And how that sits today? I mean I know that a large portion of your business is maybe not exposed to that well with iEPCI and such, but just how that looks and what the anticipation is for 2022?

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

Sure, Marc. So let me touch on -- maybe a couple of things I wanted to comment on there. So look, there's no evidence, and there are certainly not the volume of orders for anyone else in the industry to be able to move to a CTO model. So no, I don't necessarily agree that others have. I'm sure they've gotten better at what they do, but they're still building 1.0 trees. And they don't have -- you need volume to be able to go to a CTO model. And you can't go to a CTO mode on volume alone, you need the technology platform, which was the Subsea 2.0.

So it took us a long time. We started on Subsea 2.0 well before 2017. We announced it in 2017, and now it's 50% of our projected orders going forward. That's what allows us to be able to move to this. So if you say 4 or 5 years -- before 2017, this is a long journey. And it's not evident that others are on that journey or if they are, they're obviously a ways away from being able to get there. And our market position right now is such that -- let's just say it's not mathematically available to others to reach that type of volume to be able to get to CTO. And so it's something we're real proud of and something our customers certainly recognize and reward us for.

The dynamic out there in the marketplace, you raised, which is a good question, I tried to emphasize in my prepared remarks, in 2022, we're now -- up to 70% of our business is either iEPCI, direct awarded to our -- mostly direct award to our customer -- to our company, other direct awards from our alliance partners, and subsea services, which is direct award. So just reflect on that for a moment.

I mean, I've never been in this position in my entire professional life in any business to where you are in such an intimate position with your clients due to who you are? Which you stand for? Being a pure play, being focused, putting all your time and effort and passion into the subject and just being extremely, extremely good partners. And that's what gives us visibility. And that has huge benefits when it comes to things like managing the security of supply. We have deep intimate relationships with our suppliers as well, and they know they can count on us for the volume. And it's not so cyclical as it used to be in the past where you'd have two good quarters, two down quarters.

You're seeing a lot of consistency in our inbound trajectory as well, not that it will ever be linear, but it's just -- yes, it's just a very rewarding position to be in. We're privileged to be here. We're humbled to be here. It's because of the trust that our customers place in us, and we continue to do everything we can to earn that every single day.

Marc Gregory Bianchi - *Cowen and Company, LLC, Research Division - MD & Lead Analyst*

Okay. I guess, talking more near term on the guidance for Surface talks about a decline in margin in the first quarter. Any commentary on subsea as we go through '22? I mean my base case assumption would be, I don't know, you get based on historically, you get kind of like 55% of the business in the middle two quarters of the year and then the first and the fourth are the balance. But any further color on how it shapes up?

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

No. Actually, thank you. That's a good clarifying question for everybody. And we don't see any real change to that pattern. Clearly, Q2, Q3 will be the strongest. Q1 will not be as strong and that's Q1, Q4 mainly being driven down because of the weather conditions in certain parts of the world and also a reduction in our subsea service activity during those quarters. So if you will, Q1 step up in Q2, Q3 and then an adjustment back down in Q4 as is the typical pattern. Nothing atypical that we see at this point.

Operator

Your next question comes from the line of Nick Konstantakis with BNP Paribas.

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Nikolaos Konstantakis - *BNP Paribas Exane, Research Division - Analyst of Oil and Gas*

Doug, you spoke to a pretty large portion of supply taken out of the market in trees and 350 at least next year, but I really appreciate the color. Can you just give us an idea about pricing? I mean it feels like a strong rebound on smaller capacity should mean very good momentum in the pricing and the orders you are inbounding?

And just related to that, I think somebody mentioned earlier in 2017, at that point, order intake pro forma for the combined company was closer to $50 billion. Appreciate there has been deflation, but is there any other comments that can help us understand or compare to the degree possible the conditions on a like-for-like basis?

And then secondly, can you just give us a bit more visibility on the movement of contract assets and liabilities within the working capital? If it's project-specific, fine. I just -- I wouldn't understand whether there was any consolidation effects there? Or what is the driver of those movements?

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

Sure. So -- the -- there was a lot there. I'm trying to narrow it down a little bit. So let's start with the kind of outlook. So yes, we clarified that we're very confident that there'll be 350 trees awarded in 2022. We have a very large market share of those awards which allows us to do everything that we said we were set out to do. Because of the 2.0 and because of the CTO is why we can get through a smaller manufacturing footprint. We also reduced our manufacturing footprint. We took entire manufacturing facilities they no longer are our part of the company. So as others did as well.

The pricing effect of that, obviously, when -- in simple basic economics, supply and demand, obviously, we're in a more favorable environment. We don't talk a lot about pricing in subsea only for one reason. Go back to what I said earlier on Marc's question, 70% of our business is direct awarded through our alliance partners, iEPCI or subsea services. So we're not pricing against the competitors we're working with our clients to ensure that we get a fair economic benefit from the project, and they're obviously direct awarding to us for a reason. So it tends to be favorable because they know we're going to deliver. We know we're going to help them deliver to meet their economic requirements and for their projects to be successful as well. So we just don't talk a lot about it, but yes, clearly, clearly, it's -- all things are pointing in the right direction.

I will talk about pricing in the North American market for Surface Technologies. This is an area where we are experiencing inflation in just about everything. And it does require almost a very high cadence of pricing adjustments. That obviously has limitations at some point on the economic value of those projects. But it's what you have to do to, if you will, survive in a market like what's happening in the U.S. land market right now. Again, I'll point out, the vast majority of our revenue comes internationally. It is not tied to the U.S. land market, but it is important that we do note the inflationary environment there -- in our subsea contracting model, we also have certain benefits to be able to offset, defer or pass on those type of inflationary pressures.

So pricing is good overall. Most active, if you will, in the surface business, most active in the U.S. land portion of that, which, again, a very small percentage in an area that's also experiencing the inflation. So the pricing is there to offset that inflation. Other than that, I'll let Alf make some further comments.

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

Yes. Just back to contract assets and liabilities that you asked about. So first of all, I want to point out, it's not as meaningful of a number as it used to be as we were pre-spin with the E&C business of Technip Energies still in our company. So I think if I -- I think our net contract liabilities may be something like $45 million at the end of this year. It was probably a net positive position in the prior quarter, but again, a slight movement. But it's kind of normal that we will have some movement, but it will not be a major driver in necessarily all the time for working capital.

In terms of our working capital really for the fourth quarter, it was more about customer collection and converting our receivables and assets to cash, and we also continue to reduce our inventory. So again, not the major driver in our net liability for contracts.

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

Maybe just one other comment I'll make, back to kind of the original part about the geographical mix and stuff. I do think it's important that we note that post the spinoff, if you look at the pro forma filings of TechnipFMC and certainly what we'll be filing here in the coming days in regards to 2020 to 2021. I just want to make sure that it's clear to everybody that our exposure to Russia is far less than 1% of our revenue, less than 1% of our total revenue. I just wanted to make sure that we had made that point as well.

Operator

And at this time, we have come to the end of the hour. I would like to turn the call back over 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 08:00 p.m. Greenwich Mean Time today. If you have any further questions, please feel free to contact the Investor Relations team. Thank you very much for joining us. Lisa, you may end the call.

Operator

This concludes today's conference. You may now disconnect.