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CORPORATE PARTICIPANTS

Alf T. Melin *TechnipFMC plc - EVP*

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*

Chase Mulvehill *BofA Securities, Research Division - Research Analyst*

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

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

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

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

PRESENTATION

Operator

Thank you for standing by, and welcome to the TechnipFMC Second Quarter Earnings Call. (Operator Instructions) Thank you. I would now like to turn the conference over to Matt Seinsheimer, Senior Vice President of Investor Relations and Corporate Development. Mr. Seinsheimer, please go ahead.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Jack. Good morning and good afternoon, and welcome to TechnipFMC's Second Quarter 2022 Earnings Conference Call. Our news release and financial statements issued yesterday can be found on our website. I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risk 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, and congratulations on your recent promotion and your expanded role. Thank you for participating in our second quarter earnings call. Before I comment on the strong operating results in the period, I want to first talk about yesterday's announcement regarding shareholder distributions. At our Analyst Day in November of 2021, we shared with you what we believe to be in an appropriate capital structure for our company. Since then, we have made substantial progress towards our goal.

In the second quarter, we successfully reduced gross debt by more than $500 million, and we remain confident in our ability to achieve our stated target of $1.3 billion. This targeted capital structure will ensure that we can maintain strong access to credit and allow for continued investment in our business through the cycle.

Given our debt reduction to date, we now have the flexibility to begin shareholder distributions as evidenced by the announcement of an authorization to repurchase up to $400 million of our common stock. This represents 14% of the company's outstanding shares at yesterday's closing price. We firmly believe that our shares are undervalued and that the share repurchase program underscores our confidence in the long-term outlook for our company. Simply put, buying our shares is one of the most compelling investments available to us today.

In addition to this opportunistic approach to shareholder distributions, we have reaffirmed our intent to initiate a quarterly dividend in the second half of 2023. Our debt reduction, share repurchase announcement and reaffirmation of a dividend distribution are all important milestones in delivering greater shareholder value.

Turning to our financial results. I am very pleased with the solid performance demonstrated in the quarter and the strong start to the year. Total company revenue in the period was $1.7 billion. Total company adjusted EBITDA for the quarter was $187 million, exceeding the expectations we outlined on our first quarter call. Adjusted EBITDA margin was 10.9%. Total company inbound orders were $2.2 billion, driving another quarter of sequential backlog growth to $9 billion.

In Subsea, quarterly inbound was $1.9 billion. Inbound for the first half of the year was $3.8 billion, a book-to-bill of 1.4 with iEPCI, direct awards and Subsea Services, representing approximately 70% of total orders. Project awards inbound in the period included ExxonMobil's Yellowtail development in Guyana, where we were given full notice to proceed.

The Subsea production system includes 51 enhanced vertical Deepwater trees as well as 12 manifolds. We were also awarded a new flexibles contract from ExxonMobil for high-pressure, high-temperature risers for the Yellowtail development. And we received a contract from TotalEnergies to supply subsea production systems for the CLOV3 development offshore Angola. This is the first contract under the company's new framework agreement, covering Subsea 2.0 trees for brownfield developments in Block 17.

As previously highlighted, our high volume of FEED activity and unique client partnerships supports our view that the Subsea tree awards for the total industry will likely exceed 350, a level not seen since 2013. In the first half of this year, TechnipFMC has already been awarded 117 trees. This is nearly double the volume we sold in all of 2021 and serves as further indication that the industry is in full growth mode.

Earlier this month, we announced the award of an integrated FEED or iFEED by Equinor for the BM-C-33 project offshore Brazil. The study includes an option to proceed with a direct award to our company for the iEPCI phase of the project. Upon FID, this would be one of the industry's largest integrated awards to date. This will also be the first time Equinor uses our configure-to-order production systems and further underscores our view that more than 50% of our tree orders will be Subsea 2.0 over the next 2 years.

And within our new Energy Ventures business, 2 tidal energy contracts were recently awarded in the U.K. The multi-turbine projects will be capable of delivering 7.2 megawatts, a predictable tidal energy through our partnership with Orbital Marine Power. This award positions us as the leader in floating tidal energy.

The first half order trends clearly demonstrate the strong momentum of the Subsea market. The underlying strength is also displayed in our Subsea opportunity list which increased by 20% from the first quarter update and now represents an opportunity set of $24 billion for the industry based on the midpoint value of these offshore developments. It is also important to note that the list does not fully reflect the underlying strength of the market. There are 12 distinct customers represented on this list, most of which have participated in subsea developments for many years. However, our first half inbound was composed of more than 40 operators across all basins, illustrating the growing diversity of our customer base.

Based on our strong first half results, the growing project pipeline and the active dialogue with our large and expanding customer base, we expect full year Subsea orders will be up as much as 40% versus the prior year, above the previous forecast of 30% with orders now approaching $7 billion in 2022.

Moving to Surface Technologies. We are pleased with the sequential improvement in our results. We saw good growth in North America sales and profitability. And we continue to move pricing higher as needed to ensure we earn an acceptable return on our investments.

As previously indicated, our results outside of North America were impacted by the start-up of our new manufacturing facility in Saudi Arabia. We have now completed the facility audit and most administrative milestones, leading to our first in-country orders. This sets the stage for improved financial performance as we ramp production in the second half of the year. Alf will provide more detail on our outlook for the remainder of the year.

Now let me close my remarks with a simple message. We are very focused on delivering on our commitments. First, we said we would restore the balance sheet to a more appropriate capital structure. And in the quarter, we reduced gross debt by an additional $530 million to $1.5 billion.

Second, we said we would initiate shareholder distributions, and we have now made sufficient progress towards our capital structure to do so. This action has been accelerated a full 12 months ahead of schedule and reflects our view that a balanced approach to debt reduction and share repurchase is warranted given the significant discount in our share price relative to peers and the long-term prospects of our company.

Finally, we remain focused on meeting our financial commitments in 2022 and beyond. We are very confident that we will deliver results within the full year guidance framework provided back in February. And looking further ahead, we remain confident that our internal initiatives coupled with a strong market backdrop, provide us with a clear path in achieving Subsea EBITDA of more than $1 billion by 2025.

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

Alf T. Melin - *TechnipFMC plc - EVP*

Thank you, Doug. Total company inbound orders were $2.2 billion in the quarter driven by strong Subsea inbound of $1.9 billion. Total company backlog increased 2% sequentially to $9 billion. Revenue in the quarter was $1.7 billion, adjusted EBITDA was $187 million.

Second quarter income from continuing operations was $2 million, which included after-tax charges and credits that netted to an expense of $6 million. When excluding the impact of charges and credits, our adjusted income from continuing operations was $8 million or $0.02 per share. These adjusted results also included a loss on early extinguishment of debt of $30 million.

Now turning to segment results. In Subsea, revenue was $1.4 billion, up 10% from the first quarter. Revenue increased sequentially primarily due to higher project activity in Africa, the North Sea and Brazil. Subsea Services revenue increased versus the first quarter due to seasonal improvement, including higher installation activity.

Adjusted EBITDA was $176 million with an adjusted EBITDA margin of 12.4%, up 240 basis points versus the first quarter. Adjusted EBITDA increased 36% sequentially, primarily driven by higher revenue and increased installation and service activity.

In Surface Technologies, revenue was $303 million, up 14% from the first quarter. Revenue increased sequentially, primarily due to accelerated growth in North America, which benefited from the continued increase in drilling and completion activity.

Adjusted EBITDA was $32 million, a 47% increase sequentially. Results benefited from higher activity and improved pricing in North America. Outside of North America, adjusted EBITDA increased modestly due to the impacts of the transition to a new manufacturing facility in Saudi Arabia. Adjusted EBITDA margin was 10.7%, up 250 basis points versus the first quarter.

Turning to corporate and other items in the period. Corporate expense was $22 million, net interest expense was $28 million and tax expense was $20 million. Cash required by activities from continuing operations was $97 million. Capital expenditures were $36 million. This resulted in free cash flow consumption of $133 million in the second quarter.

As discussed when we provided full year guidance, we expect free cash flow to be weighted to the second half of the year, very similar to 2021. Our subsea operations have seasonally higher activity levels in Q2 and Q3, which drive major milestone collections that occur throughout the second half of the year, with Q4 being our strongest period of cash generation.

In April, we sold our remaining 4 million shares of Technip Energies. We have now fully exited our position, realizing total proceeds of $1.2 billion since the separation. In May, we completed a tender offer for $430 million of our outstanding 6.5% senior notes due in February 2026.

Gross debt in the second quarter decreased by $530 million to $1.5 billion, a reduction of more than $1 billion since the spin-off in the first quarter of 2021. We ended the quarter with cash and cash equivalents of $685 million and net debt of $790 million.

Moving to guidance. We have reaffirmed our 2022 guidance as all items remain within the ranges previously provided. To help you -- to help in your modeling for the remainder of the year, I will provide some additional color on the segment guidance.

For Subsea, we expect both revenue and adjusted EBITDA margin for the full year to be at or near the midpoint of the guidance range. The third quarter should reflect strong results similar to what we reported in Q2 for both revenue and adjusted EBITDA margin, benefiting from the continued strong activity and improved margins in backlog.

For Surface Technologies, we expect full year revenue to be at or modestly above the midpoint of the guidance range. Third quarter revenue is expected to increase up to 10%. We also anticipate incremental EBITDA margins to approximate 30% for the remainder of the year. While North America was the primary driver of growth in the first half, we expect the second half of the year to be led by international markets, driven primarily by the Middle East. This will be supported by the ramp-up in production at our new Saudi Arabia facility in addition to higher activity across the region.

In closing, I will share with you my major takeaways from the quarter. We delivered on our plan for a significant reduction in gross debt in the quarter, demonstrating our commitment to a strong balance sheet. Importantly, this action has done more than just improve our capital structure. It has provided us the flexibility to pull forward the timing of shareholder distributions, a decision that is further supported by our confidence in the free cash flow generation we see going forward.

Finally, I am confident that the improved operating performance experienced across both segments is setting us up for a solid second half and further improvement in 2023.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Chase Mulvehill with Bank of America.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

I guess good afternoon over in Europe. So Doug, first question, just kind of thinking about the macro here. And obviously, you gave us a good update on the Subsea opportunity list at $24 billion, but if we can look past that a little bit and just think about tieback opportunities. Could you talk about tieback opportunities out there? And maybe how much you think that's still left out there? I mean, obviously, we've been doing a lot of tiebacks over the past few years. So just trying to understand kind of how much of that opportunity kind of still sits out there.

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

Sure. Actually, you raised a really good point. If you look at the Subsea opportunity list, which increased 43% since this time last year, and now represents $24 billion, you are correct in pointing out that the majority of these are actually large greenfield projects. Behind that is a significant amount of tieback or brownfield activity that is still ongoing. I don't know that I'd call it, even middle innings. We're still fairly early, and there's lots of opportunities.

And you can see that in our inbound numbers in the first half, where a large portion of the inbound number is actually coming from unannounced awards or if you will, some of the smaller awards that aren't always but are often in that category of tiebacks or brownfield.

So simply stated, it remains extremely robust. There's a lot of activity. It is the shorter cycle part of Subsea and it's one that our integrated model, coupled with our Subsea 2.0 platform makes us the partner of choice because we can deliver those projects in 12 to 14 months, which has a huge impact on the tieback opportunities and a reason why we've been, if you will, doing so well in that market.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

Okay. All right. Perfect. A quick follow-up, I don't know how far I'm going to get with this, but I'm going to give it a shot.

You just said for 2022 for Subsea margins, you're kind of pointing us towards the midpoint for the full year. But obviously, you're booking some strong backlog, presumably a better pricing, better margins. So when we look out to 2023, I'm assuming that kind of points to better margins. But I don't know if you -- if it's too early for you to give any color, I know you won't be explicit, but just kind of directionally, how should we be thinking about margins for Subsea for 2023?

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

Chase, I would have been surprised if you didn't ask, so certainly worth asking. I think it is a bit early to give segment guidance, if you will. But no doubt, the market is setting up very nicely, particularly for us because of the large portion of direct awards that are a result of the unique iEPCI offering are the large installed base in Subsea services as well as our partners and the direct awards that we received from our partners.

So we remain very excited about the remainder of 2022 as well as 2023. But I'm going to turn it over to Alf to maybe give you a bit of color more from a total company perspective than a segment perspective.

Alf T. Melin - *TechnipFMC plc - EVP*

Yes. Thank you, Doug. And certainly, it's a little bit early to give specific guidance here for 2023. But what we can say is that we do expect continued revenue growth, and that is in both segments. And when we look at company EBITDA, we are on track to grow up to 20% based on the progress we've seen so far.

So for instance, the second consecutive quarter of $1.9 billion of Subsea inbound and the total inbound approaching $7 billion and indeed, the Subsea orders continue to be booked at average margins -- in average margins that are accretive to backlog.

And then when you just quickly glance at Surface, we certainly continue to see continued progression in our Surface margins as well. So that's probably the color I can offer at this point in time. But the takeaway is that the company EBITDA is expected to go up in 2023, and we are currently saying up to 20%.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

Okay. Perfect. Sounds good. I'll turn it over. And congrats, Matt, on the promotion.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Thank you, Chase.

Operator

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

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

I'd like to ask about the profile of the free cash flow and cash generation from here. And specifically, what is different going forward versus, let's talk to, the past 12 months or since separation of Technip Energies. You had a net debt 1Q last year of just under $1.8 billion, is just under $0.8 billion now. So there's $1 billion of deleverage and you've sold $1.2 billion of energy shares. You spent about $250 million of CapEx.

So it suggests roughly cash breakeven over the last 12 to 18 months. And so could you just take us through the moving parts that changed that profile going forward. Doug or Alf, in terms of your own self-help of your cost versus the market pricing and the pass on cost one imagines. Everyone's talking about inflation but yes, these moving parts as we look forward to this cash generation.

Alf T. Melin - *TechnipFMC plc - EVP*

Yes. No, certainly, thank you. So first of all, admittedly, Q2 was a bit lighter than expected. We did have some net working capital outflow in the quarter. And if you look at the most specifically, moving apart from quarter-to-quarter, it is truly the timing of achieving milestones, getting the billings and the collections done in particular for the Subsea projects. This remains our biggest driver for quarter-to-quarter fluctuations.

And similar to last year, we do expect and we do see this in our Subsea profile. As I mentioned in my prepared remarks, we really have the highest activity on Subsea driving through the progress that drives our contract assets and our receivables in Q2 and Q3, and they drive them towards collection in the third quarter and the fourth quarter. So we very much expect the same pattern this year.

In terms of why we're confident, we obviously have visibility to all these milestones and the associated collections. So this gives us overall confidence in our guidance. And obviously, again, that's going to be the major driver for the annual cash flow.

Now if you look at it more broadly, just talked about that the EBITDA, we expect that to continue to drive forward. We continue to expect to have a favorable ratio between, call it, the depreciation and amortization profile versus the CapEx. We continue to look at our CapEx to come in -- this CapEx for the year for $230 million, for instance, is probably we have a good chance to come in below that. But we expect to continue to have that favorable ratio between depreciation, amortization and CapEx and adding new CapEx.

So if you remember back to the Analyst Day, we actually said that we would have a range of 3.5% to 4.5% of our revenue to be in CapEx. We continue to see a trend that we are at the lower end of that range. And I really don't have anything that I expect to drive it up significantly as we look forward right now. So those are some of the dynamics, and I don't know if that helps you. But maybe Doug wants to add a few words.

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

Sure. Why don't I add a little bit on the cost side, Mark, to your question. We talked a lot about this at the Analyst Day back in November. A lot of what we have been doing in the company to iEPCI, changing the commercial model, Subsea 2.0, enabling configure to order or CTO as our new operating model both give us significant cost leverage because we can get the benefits of scalability, and we're seeing that.

And if you remember back in the guidance we gave in November of last year, which was Subsea margins would expand to 15% by 2025, along with revenue growth, doubling the EBITDA of Subsea that had very little pricing element involved. There was activity, there was volume because our revenue was going from $5.5 billion to $7 billion. But we're in a very different environment today. And we're seeing the benefit of all the hard work and the innovation and now the saturation with Subsea 2.0, 50% of our orders over the next 2 years, we expect to be Subsea 2.0 that creates that ability to really start to get that cost leverage. And then on top of that, we are certainly in a very different pricing environment than we had envisioned just 6 months ago. So net-net, very favorable.

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

That is great color. And yes, there's a lot on this at the Analyst Day. So I appreciate the follow-on from that. Can I maybe follow up, Doug and ask, in terms of the Subsea 2.0, is it also a case that you're only just starting to roll out really that -- those types of equipment sets that you've manufactured. Just give us an idea of how many of those you've actually put in place out there in the market?

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

Yes. So 2.0 orders started -- we commercialized at the end of 2017, 2018. Started to get some orders, obviously, in '19. And '20 was obviously a pretty tough year for all of us. And now we're -- the orders are ramping up, as indicated. We expect up to 50%.

So if you just add kind of the normal delivery schedule to that, you're starting to see those installations go into place. I don't have an exact count. I actually don't track the exact number of Subsea 2.0 installations, if you will, but they are there. They're going well. We've had repeat orders from all of the customers that we've delivered Subsea 2.0.

And in some cases, like you saw us announce last quarter and then this quarter announced the first call off, we have customers that are now going exclusively to Subsea 2.0, like TotalEnergies decision to do that for their brownfield activity in Angola. So yes, things are definitely moving very favorably, and we're very pleased and humbled by the success of 2.0.

Operator

Our next question comes from the line of David Anderson with Barclays.

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

So order has taken a big leg up here, as you mentioned since 2013. So long time since we've seen this. I was wondering if you could talk a bit about your manufacturing footprint kind of your capacity and kind of how it sits today compared to kind of the last time we saw this. Last time the market really expanded, not necessarily just a number of trees, but more kind of where it is, what's changed and kind of your expectations for operating leverage with particularly this configure-to-order model, which I would think would drive quite a bit of that.

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

Well, David, you're spot on. And it's actually an intriguing question because in this environment, you think we'd be announcing big capital increases and adding more manufacturing capacity, adding more fixed assets. We said we were going to change the way business was done. We were going to develop our model so that we could drive higher returns and sustainable returns and attractive through-cycle returns.

And David, if it wasn't for 2.0 and the ability now to be able to leverage the configure-to-order model we'd be in a very different situation. So we have doubled the Subsea 2.0 CTO allows us to double the throughput capacity within the same footprint. So we've actually reduced manufacturing capacity roofline, but increased our throughput capacity. That's just exactly what we want to hear, and we believe our investors want to hear. And it's what sets us up, I believe, to deliver a very different results than what is typical at this point in the cycle when companies are increasing their capital budgets to accommodate the growth.

In addition to that, beyond the manufacturing, you know we've changed the operating model in the industry by partnering with others and using their assets and providing them access, if you will, to our market, much of which is proprietary because of the integrated model and the direct awards that we have, allowing them access to that market where we can utilize their floating assets to support our fleet without us having to add additional capacity to be able to service this growth. So this is our approach. We're going to remain very disciplined but still grow the company, which I think is the best of all scenarios.

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

Just a quick follow-up on the trees. You mentioned 50% were Subsea 2.0. Does that also mean 50% would be the CTO model? Is it kind of -- is that how it works? Or...

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

Yes. That's a great...

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

Will you do CTO on non-Subsea 2.0. Maybe I just got that confused a little bit.

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

No. Thank you for -- thank you for clarifying. And yes, the best way to think about it is 2.0 enables CTO. So CTO equals 2.0.

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

Okay. Okay. So my other question was on your Surface business. Obviously, really good leverage to the Middle East rig count. You talked about this briefly. I was wondering if you could expand a little bit more on kind of what's going on in the market right now. We've heard kind of mixed things. It sounds like things are idling. But I would think with the rig counts picking up that you're already starting to see a big pretty big pickup in demand on that Surface side and also does that new manufacturing facility in Saudi, does that cover all of your needs in country or do you still have to bring some stuff in?

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

Sure, Dave. So let's start with what we believe will be the most significant growth market for us in Surface, which is the Middle East. And it's not just Saudi. It's beyond Saudi. And be it Saudi, be it UAE, Oman, Kuwait, et cetera. There's a significant amount of investment going on in the Middle East today. The facility that we built in Saudi will cover 100% of our needs and Aramco's needs from us. So we will be doing that, if you will, be fully vertigrated within the country and a similar approach we have in the UAE.

So that's the most significant market for us. We are well positioned -- the -- as we indicated in the prepared remarks, we're on way now in accepting new orders and there'll be a ramp-up. It doesn't happen overnight, but there'll be a ramp-up through the end of the year in being a really strong run rate then for 2023.

North America remains robust as well, not necessarily the same growth potential in our view, but one where there's certainly a limitation of capacity as we've kind of reached -- kind of stretched beyond the resources that are available, be it human resources or physical resources within the market. There, it's very important to us that we generate returns that are acceptable. And we are -- as a result of that, requiring a higher price point, higher returns for the work that we're doing in the North American market.

Operator

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

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

I wanted to see if you could talk a little bit about the pricing dynamic you're seeing within the industry. You mentioned the potential for 350 Subsea tree awards this year. And the one of the things we did note is going back to Schlumberger's call that, they noted improving pricing dynamics and the fact that their backlog was growing. And that was going to be a key driver of their second half growth. So just wanted to get some thoughts on what you're seeing in terms of pricing.

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

Sure. So agree with the comments Schlumberger made. I guess the only difference is we're seeing it now. It's not a second half event. It's obviously showing up in our results as we speak. I'm always wanting to point out that -- we -- our objective is to capture a greater portion of the economic value that we deliver to our customers. So we have very long-term relationships, many of which are exclusive to our company, some of which are over 20 years -- that have been in place for over 20 years.

So what we do is we continue to innovate, we continue to differentiate. And as a result of that, if we can create greater economic value for our customers, they are more than pleased to share with us a greater portion of that economic value that we create. So there is no doubt that we are seeing the benefit of that. And the iEPCI model coupled with Subsea 2.0, the unique combination that we offer into the marketplace, is allowing us to get that benefit in terms of the share of the economic value.

In addition to that, as I responded to an earlier question, there's also cost leverage associated with that. So if you will, we're capturing it on both ends, but at the same time, making sure that we are creating greater economic value for our customers or better project returns. We do that,-- Most -- the most direct way we can do that is delivering projects well ahead of what the rest of the industry is capable of doing, which we would not have been able to do without the creation of a single integrated company and the continued investment and innovation -- technology and innovation as evidenced by Subsea 2.0. So that's what gives us the confidence as we continue to move forward.

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

Great. And my follow-up, Doug, is that we've seen a lot of fluctuations in the currency -- the U.S. dollar is obviously appreciated pretty significantly versus the euro. You had a very small currency impact in the quarter, but how should we think about the impact to your business just from a stronger dollar?

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

Sure. I'm going to have Alf comment.

Alf T. Melin - *TechnipFMC plc - EVP*

Yes. So maybe just to take it a little bit from the financial statement impact that we actually do have in our company from this. So let's start with the fact that a good portion of our backlog is actually denominated -- coming out of business units that have functional currency different than the U.S. dollar. So that does lead not to an economic loss, but to a translation of foreign exchange that in this case, drives down, for instance, our backlog by over $300 million, that in this quarter alone. So there's a translation impact to the backlog that you see that still is $9 billion in total, but you see that impact.

The other way that, that comes through for the same reasons is, as you -- if you continue to experience a higher U.S. dollars, those non-U.S. dollar revenues and earnings, will translate into slightly lower U.S. dollars into their financial statement. So that's the most immediate financial statement impact you will have.

Otherwise, when it comes to our portfolio of hedging, et cetera, we are continuing to manage our cash flows and our balance sheet positions in such a way that we minimize the foreign exchange gains and losses. So you shouldn't see anything extraordinary there. There is a third point I will make, though. There are certain currencies that we cannot hedge, for instance, in Africa. And as the African currencies either devalue or appreciate against the dollars, you will see an impact in the foreign exchange line also, which will create some variance, but those are probably the primary impacts from the dollar strengthening.

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 wanted to talk a little bit more about free cash flow. So you kept the guidance for the year, and that would seem to imply sort of $600 million to $750 million of free cash generation in the back half of the year. First part of the question is just wondering if, sort of, the lower end of that range is more appropriate now just given how the first half developed. And then if you could put a finer point on what to expect in third quarter, that would be helpful.

Alf T. Melin - *TechnipFMC plc - EVP*

Okay. Certainly. So first of all, we continue to target the midpoint of the free cash flow. So that's the -- at the point that we still have confidence in that we can be at. Now what will cause the variation from the low to the high point is really what I kind of mentioned before. It's going to be the exact timing in the fourth quarter or how quickly we reach certain milestones and how quickly they convert to billings and collections by year-end. That's going to be the primary driver for whether you end up in the high end or the low end of the range, but we continue to see ourselves having the visibility to reach the midpoint of the guidance, and that's where we continue to guide.

In terms of third quarter, it's because of the same dynamics I mentioned, it's always difficult to call the cash flow by quarter with precision, but I will say this, we certainly expect to be positive in the third quarter. And -- but to be also be clear, we do believe that the bulk of the cash generation is expected to be in the fourth quarter. So that's the profile we still expect for the year.

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

Yes. That's helpful. And then on the buyback, in the context of that cash flow progression, should we be thinking about the buyback more likely to be occurring when you're having strong periods of free cash generation? Or are they sort of independent from each other?

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Alf T. Melin - *TechnipFMC plc - EVP*

Yes. So maybe to say it this way. So first of all, I mean, we're very pleased with our share buyback program announcement now. I mean, it describes how much we're satisfied with the progress we've already had on the leverage and balance sheet. And we really believe this is a question of timing. Also we do believe that the current share price reflects an undervaluation of our company. And with this in mind, we're certainly going to have a balanced approach going forward where we can take advantage of, call it, the undervaluation while also being committed to having a strong balance sheet.

So in that mix, certainly, free cash flow is going to make a difference. But it doesn't mean that we sit completely on the sidelines either as long as the valuation is through where we see favorable economics to do share buyback.

Operator

Our final question comes from the line of Waqar Syed with ATB Capital Markets.

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

Doug, just a broader question, like we've seen this outlook for offshore improve considerably. Do you think it's -- it is -- the catalyst recently has been the energy security issues? Or you think even absent that, the trend was always towards increased offshore activity as the cycle unfolded?

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

So thank you for the question. I think it's really important that we are very clear in this response. This is a trend that has been underway and we are just seeing it unfold. So there is not a single catalyst or a short-term effect. This is certainly something that has been underway and the preferential investment in offshore for a variety of different reasons, we believe, has been building and will continue going forward.

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

That's very helpful. And just one other question that -- like the supply chain inflation has been -- is a big issue we're seeing all across. Now your margins have been held up pretty well from the guidance that you've given before. So first of all, how are you managing inflation in your backlog?

And similarly, how are you managing your -- the supply chain issues on your throughput, it seems to be that you've been relatively immune in your results with all these issues going across the world.

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

No. So thank you for the question. And I appreciate the fact that you recognize that we have managed. And to me that's something that our shareholders expect us to do. Is it challenging? Of course, it's challenging. Is it real? Yes, it's real. But with a bit of forward planning and the development of relationships, both with our customers as well as with our suppliers, one can use that during these challenging times to make sure that it's a win-win-win, if you will. And that's exactly been our approach.

We have always stood by our suppliers even in difficult times that we all went through during the pandemic, and our customers have stood beside us. We have lots of contractual and legal reasons why we are able to do that. But I don't think you should underestimate that if you don't treat people right, they'll remember that, and they'll take advantage when the opportunity is.

But if you just look at where we are in the market today, I alluded to in my prepared remarks, we received 117 trees in the first half of the year. Now we said 350 for the total year. So one could ballpark what is probably the total market and what was our position of the total market.

So our suppliers understand that this is some -- this is our core business. This is a business we're very focused on. This is a business that if they align with us, they know that they're aligning with the leader for today as well as for tomorrow. And with that comes certain preferential treatment. And I don't think that it's -- I don't think that it's completely appreciated, and that has helped us tremendously, and we will continue to operate that company that way, both with our customers as well as with our suppliers.

So very proud of the work that our team has done in building those relationships, sustaining those relationships. And we continue to be very supportive of our supply chain. And again, at the end of the day, yes, there's contractual support but it's really done -- it's just the way that we do business. It's a bit unique. But it has its benefits as is being evidenced today.

Operator

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

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

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

Operator

We thank you for attending the TechnipFMC Second Quarter Earnings Call. We thank you for your participation. You may now disconnect.
