THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

FTI.N - TechnipFMC PLC at JPMorgan Energy, Power & Renewables Conference

EVENT DATE/TIME: JUNE 16, 2020 / 12:40PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Douglas J. Pferdehirt *TechnipFMC plc - Chairman of the Board & CEO*

CONFERENCE CALL PARTICIPANTS

Sean Christopher Meakim *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

PRESENTATION

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Welcome back to the JPMorgan Energy Conference. I'm Sean Meakim. I'm the oil service analyst at JPM, and we're very happy to have Doug Pferdehirt, TechnipFMC's CEO here for a fireside chat. Doug has been CEO of FTI since 2016. Prior to that, he was COO starting in 2012 and for a 25-year career at Schlumberger. He's been instrumental in the company's transformation over the past 3 years as an enabler of offshore deflation and making long cycle projects shorter cycle. Doug, great to see you. Thanks for coming back to the conference. You didn't have to get on a plane this time to come see us, but thanks for being here.

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Likewise, Sean. I wish we were together, but very much appreciate the invitation by yourself and by JPMorgan and for the decision to host this conference in a virtual format. We very much appreciate that. I hope that you and all of those who have dialed in, that your loved ones remain healthy and in positive spirits.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Yes. Same here, same for you and the rest of the team at TechnipFMC.

QUESTIONS AND ANSWERS

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

So to start out, just looking about kind of the near-term outlook. I mean, we've had unprecedented challenges in the industry. Can we just start with an update just in terms of what you're seeing in the field, how your teams have been able to handle all the adversity of COVID in terms of manufacturing, supply chain, the challenges on the customer end, delays in terms of installation campaigns? Could you maybe give just a broad update around the business of what you're seeing just given those challenges that you're currently facing?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thanks, Sean. And maybe it would be best if I kind of talk about where we are today relative to where we were when we had our most recent quarterly earnings call, which was, if you will, in the very early days of this multiple crisis that we were facing. The short answer is I could not be more proud of the team, the exemplary performance, the adaptability and agility that they've shown, but also I think it's important to point out that our clients have just been absolutely phenomenal during this period. Although very difficult decisions were made, our clients that had a direct impact on our company, it's been in a very constructive -- the dialogue has been very constructive. It's been very open and very transparent. And we feel quite honored to have the position that we have in the industry, which gives us a seat at that table as those decisions are being made, which has helped us offset some of the potential implications that it could have had on our company vis-a-vis, if you will, our peers in the industry. So just very pleased with the environment in which we're working. Now the challenges are real. The challenges aren't going to go away anytime soon, Sean. And I think it's important that we all acknowledge that. But the times today are very different than they were just at the time of our conference call. On the conference call, I pointed out that there was significant impact to our operations. And just to maybe put it into numbers, at the time of the call, 50%, 5-0, of our overall kind of capacity of one form or another, let's just say, of our infrastructure was off-line. It was off-line because we did it proactively. It was off-line because of local regulatory reasons. But for whatever the impact was, it was very real. So we were managing through a scenario where we didn't know what portion of our operation we would be able to retain in its current state versus having to shift capacity, et cetera, et cetera. And that's what I mean by the exemplary performance. We did our best. You can't offset that, Sean, but we did our best to significantly reduce what could have been a much worse situation.

And when I -- fast forward today, I'm happy to report today for the first time, since this all started, that we have 100% of our capacity back online. Now important to point out because I don't want there to be any misunderstanding, it doesn't mean we're at 100% operational efficiency. It just means we no longer have permanently closed facilities or parts of our operation that we cannot, if you will, utilize. So that's a great improvement. And what that gives us is that gives us now the ability to start managing in a more traditional way with less external interference than we have been dealing with since the time of the call. So that's a great step forward. It will be some time before we get back to 100% operating efficiency. I'm calling you from our Houston headquarters. We're open, but we're only at 25% capacity, and in a lot of our facilities, it's the same, 25% to 50%. So you're not getting the same operational efficiency necessarily that we have expected or you would expect from us when things are in a more normal state. It will take some time to get there. But no matter what, as we go through this journey and this repopulation, as we did initially, we'll continue to put the health and well-being of our employees, their families, our partners and our clients before any financial decision for the company, and that's the right thing to do. And as a result of that, I think we've really avoided which could have been a much worse situation for our company.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Well, thank you, Doug. That's a very good update and I think certainly constructive. As part of this, you're also taking a lot of cost out of the system. Can you maybe just give an update, the $350 million cost-out program as to kind of how that has progressed and expectations around how you go towards completion there?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. We initially announced $100 million out of Surface Technologies, principally out of the North America business. That was at the time of the call, and we had very little client feedback at that point. I mean, it was -- everybody was -- everybody was busy, but there wasn't a lot of necessarily decisions being made in those very early days because of, again, the unprecedented situation we were all facing, including our clients. But it was pretty evident to us that the North America market was going to be severely impacted and the first to be impacted. So we went ahead and announced initially the $100 million in Surface Americas, surface technology, principally in Surface Americas, and that's well on its way, Sean. We started that a few months before. Subsequently, we increased that to the $350 million for the entire company. Again, a greater portion, some of that also coming out of Surface Americas but also out of the Technip Energies as well as our Subsea business.

So all those programs are underway. The surface program is more advanced than the others, but we're making big changes. And some of the changes absolutely are just volume-based. There's no doubt about it. When you have the type of significant decline that we have experienced in North America, unfortunately, we have to reduce the size and number of our crews as well, and that's really volume-related. And as volume returns, we'll need and we'll bring that workforce to be able to support that business.

But a lot of the changes beyond that are really structural changes. And it is our ambition that when we look across the business, we're going to make some of those structural changes so that we know that they're going to be sustainable and give us leverage as we come out of this on the other side.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Right. And so historically, you've given annual guidance, and you and everyone else in the world basically pulled guidance after the first quarter. Just -- I'm curious if you're -- as you're getting more visibility or if your visibility is starting to improve, are you able to provide some more parameters around margins as we go to the back half of 2020? Just that the recovery stays on track. Are you able to maybe better kind of place investors on the fairway with respect to the margin profile?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Yes. Look, I think that's a reasonable expectation, Sean. And if you look at our 3 businesses, Technip Energies, we actually retained the guidance, and we continue to provide the guidance around Technip Energies. It's the longest cycle portion of our portfolio. I don't think there's been any material changes there. We continue to learn more from our clients every day and we continue to better understand what will be the impact of COVID on the supply chain, et cetera, but we're performing quite well.

When you look at the other 2 businesses, your next mid-cycle business, if you will, for us, is our Subsea business. We're about 60%, 65% of the way through our client conversations. Sean, you would have expected them to maybe go more quickly, but the reality of it is they have to make big decisions, big decisions. And sometimes it takes a while for those decisions to actually be made and to be implemented. So we're in those conversations. And that's the benefit, again, of being TechnipFMC and the position we have in our Subsea franchise puts us at the table with our clients as they're making those decisions. We have many, many, many long-term relationships, most of which are exclusive to our company. So we're doing it in a collaborative way. We need to reduce. If we reduce here, what's the impact on your company, TechnipFMC, versus if we reduce over here. We also have clients looking at their portfolio and asking us if we want to take on activity that others are currently providing because they see that when this is all said and done, there's going to be a dramatic change to the competitive landscape. And they know who -- they feel strongly who's going to be the winners and they want to help those companies ensure that they have and whatever they can do, the strength, the volume of activity, whatever it may be during this period, and that's quite unique. That hasn't happened in prior cycles. So I think that speaks volumes for what we've created with TechnipFMC, the integrated model, the new technology that we're bringing into the market. Our clients very much are going to rely on that as we go forward.

So Sean, we're 60%, 65% of the way through these conversations. We have another month until our earnings call. We hope to be closer -- we need to get closer to 100% to really feel confident because those conversations are not about canceling projects. Haven't had that happen. We have a very strong backlog. We built up that backlog over the last couple of years. It's a -- it's at a very significant level for our company and for our industry, and it's solid. We haven't had any cancellations, but they are having to deal with just the real implications they're having on their own projects. For instance, if they can't get the wells drilled, we're not a drilling company, as you know. But if they can't get the wells drilled because the drillers are having trouble rotating crews or mobilizing, demobilizing units, that has a knock-on effect on the overall project and on the delivery of our goods and services. So we're working with them again in a very collaborative way to try to better understand how that would eventually impact our 2020 and what could potentially move into 2021.

In surface, the international business remains quite resilient. So I think we gave some pretty strong qualitative guidance already for Surface Technologies, and we're very -- nothing has really changed in our opinion in the international market. The North America market continues to deteriorate. There's a few incremental frac crews coming back, but I don't think there's going to be any sort of a recovery. At least we're not planning for any sort of a recovery in the near term. So we'll go back and we'll look at everything as we get closer to the earnings, but hopefully, Sean, we'll be in a better position. I just have to get through these remaining client conversations.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Thank you for that, Doug. And I think that really helps to frame out the customer discussions around the existing backlog and working through the near term. Can you maybe talk about how the other side of that coin looks in terms of inbound? I mean, it's going to be a challenged year for inbounds given all the destructions. But just what do you see in terms of what industry awards could look like, does integrated take another bigger bite of the overall? There are still a handful of large awards out there for 2020, there's been some industry press reports around a large project in Latin America. Just looking to get maybe that -- how is that part of the discussion unfolding in the near term?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sure. Sure. I'll start with Subsea, but I'd also like to comment on the LNG market because that's important to our company. So I'll start with Subsea. We had a record inbound last year, $8 billion, almost 50% of that coming from the integrated projects, and the vast majority almost entirely direct awarded to our company. So if you will, it just exemplifies the success of the creation of TechnipFMC in the integrated model, which clearly is becoming the model of choice for almost all of our customers, and we continue, by the way, to add new alliance customers that are going to be exclusive and around the principle on the integrated model as well as our Subsea 2.0 technology. So even during this challenging period, we're out there adding alliances. So if you will, we're taking more of the available market for ourselves, and quite frankly, that shows up in the results, if you look at 2019, and the success that we had relative to the subsea industry.

So when we looked at 2020, we originally saw a path to a similar level of inbound with the help of maybe a very large greenfield award that had the potential to move in 2020. That's not going to move in 2020 nor is any other $1 billion-plus greenfield subsea project. There will be greenfield projects, just not the $1 billion-plus. So okay, so that shifted. And then we took a hard look at the rest of the projects and the probability of those projects moving in 2020 versus sliding to 2021. And what we said is we thought that the inbound level would be about 50% of last year. We did book $1.2 billion in the first quarter. There were 2 new iEPCI or integrated projects in the first quarter. We can't announce everything yet, as you alluded, but there's a -- there are things in the press, et cetera, and we continue to be very focused on the South America market, Brazil plus Guyana, et cetera, a very important market for us, and certainly for the next decade, will be -- will be really the primary geographical market.

And the recent announcements in the North Sea, particularly from the Norwegian government around some of the support for their projects, we think could have a very positive -- could have very positive implications for the subsea industry as well as for ourselves.

So net-net, we have 1.2 in the first quarter. We have a subsea services business that, as we said, continues to be resilient. So you have 3 more quarters of contribution from subsea services. We should see an award or 2 happening in South America, in the North Sea, and we continue to have the direct awards from our alliance partners, particularly around brownfield type opportunities. So nothing certain, but we continue to be on that track towards that level of inbound for 2020.

Important to note that some things will move to early 2021. That will be a budgetary, a calendar budgetary issue, where a client may choose to spend 2021 CapEx versus 2020 CapEx. But between Q4 and Q1, it could be interesting.

Surface, the backlog comes from the international. That continues to actually be going quite well. And moving on to Technip Energies, where 50% of the backlog is LNG, is a real differentiating business for our company. We continue to execute extremely well on the LNG projects that we're operating today, which we're on 3 projects today. We've already been announced as the winner for 2 additional projects, one for ExxonMobil in Mozambique called Rovuma. That project will not FID in 2020, but we have been announced as the winner, and that is expected to FID now in 2021. And also the Costa Azul project in Mexico for Sempra. And the latest announcement from Sempra said that they still intend to FID that project in 2020. We're obviously focused on one other very significant LNG project in the Middle East. It would be very strategic for our company. We built the original trains. So we have that benefit. We're aligned with the right partner. And we have a very, very strong operational model that we believe is very attractive. So net-net, we're on 3. We've already won 2. We're targeting a third. We always said we'd run between plus or minus 3 to 4 LNG projects is the right size for our company. So we're actually quite -- I know the LNG market is strong. There's no question about that, but where we are positioned is in the right place within the LNG market and with the right customers and with the right partners in the right geographies. So we remain quite excited about LNG and the importance for our company.

In the area of downstream, we did mention that we are tracking one very large downstream project. There won't be a lot of those this year, but we are tracking one that's quite advanced. We still expect it to move forward in 2020 and that would be $1 billion-plus in the downstream sector up for Technip Energies.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Thanks for that rundown. Maybe just -- we'll stay on energies for a second. Just thinking about next cycle, maybe you could just talk about where you see the growth opportunities for the business. So infrastructure tied to gas processing and LNG, that still seems like it's right in the fairway for you. But I'm thinking also about energy transition. Just what else is out there on a long-term basis where the skill sets that, that business has creates opportunities outside of maybe those kind of core areas?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Well, great question, Sean. So first and foremost, we continue to be bullish on LNG for us, and I know it's unique to us, but in the short term, as I just described. But over the long term, we agree with Shell and others who maintain a very bullish position for LNG over the long term, and that will always be a core business for Technip Energies. When we look beyond that and we look at what could some of the new businesses be, it's very much around the energy transition. And it's not an ambition, it's what we're doing today. We're on projects today for carbon capture sequestration. We're on biofuels, where we're now partnering with Neste for their biofuel projects. We're developing our own process chemistry to allow us to be able to do things like waste-to-energy, plastics. We're investing in alternative feedstock for the delivery of single-use containers, i.e., plastic that doesn't necessarily -- that's not necessarily generated from hydrocarbon. So there's some very exciting things that we are doing today that we absolutely expect to fuel the growth and the opportunities for energies going forward.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

And so just to maybe wrap up a bit on Technip Energies, can we talk a little bit about separation? Could you maybe remind investors about the rationale for the split? And importantly, why you remain committed to it even though there's been a delay in terms of the timing?

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Yes. Sean, nothing has fundamentally changed from the strategic rationale for the transaction. What has changed is obviously the industry outlook and then the capital markets. So those are the 2 things that we continue to monitor. And we have a set of parameters, in both cases, both in terms of the industry outlook as well as in the capital markets, and that will really drive the determination around the timing of the transaction. We are largely complete. So if you will, we are very -- we were very, very close to going when we announced the delay. We thought it was the right thing to do. Given the incredible uncertainty in the capital markets at the time, it just didn't seem prudent. So we'll take this period of time just to increase our confidence around both businesses and the outlook for those businesses as well as the capital markets and make sure that the timing is right when we move forward.

What we've committed to is that using a similar type structure, we would be able to complete the transaction in as short as 90 days, assuming we don't change the structure of the transaction. Why is that important? It will take out this period of, let's say, this information vacuum that occurs between an announcement and a closing of the transaction, and we've learned from that. We'll also ensure that we have a vehicle that U.S. investors continue to own and trade Technip Energies to an ADR type vehicle, which is some other feedback that we have received. So we're using this period of time, to, if you will, just strengthen the approach. But again, the fundamental underlying benefit of having these 2 pure plays in the industry that are quite unique and different in what they do really positioned us as the leading player in LNG and the leading player in subsea we think will create a really unique investment opportunity for our investors.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Understood. Then maybe let's circle back to subsea a little bit more. There's -- as investors look to the next cycle and try to understand what does the -- when there's a call in the upstream again, which producers meet that call. There's an open question as to North America's ability to take most of the incremental barrels as they did last cycle, and there are obviously a number of factors there. But I'm thinking about the prospect of longer cycle barrels becoming more competitive. Big strides in the last cycle in terms of not just cost deflation but also shrinking the time of first oil. That's where a lot of the value of what bringing Technip and FMC together was about, right, shifting that time gap. So just curious where you see things today and where they can be next cycle in terms of that -- reducing that time to first oil for longer cycle projects. So that's Subsea and Subsea 2.0 is a big piece of this, right? And then beyond that, Subsea 3.0 or just kind of where we stand in terms of that next iteration that you are working on kind of behind the scenes.

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Now Sean, you're asking a very important question. And as a company that's exposed to both of those markets, it's one that we certainly analyze and discuss and make strategic decisions around every day. So it's absolutely the right question to ask. Both are important markets. We work in both of those markets, but they are fundamentally different, fundamentally different. And I think when we come through this cycle, there's going to be -- some of the same questions are going to be asked, but there's going to be some new questions that are going to be asked. Things like sustainability and greenhouse gas emissions, that's going to enter into the decision equation for where our clients spend their capital dollars. What we know is that the Subsea has a significantly lower greenhouse gas footprint than the surface business. So they're going to weigh that into their investment decision.

We also have done, as you pointed out, both in the opening and again now, which I appreciate, is it's really about making the offshore cycle shorter. It will never be as short as drilling an unconventional well. But here's the difference. It's a defined capital investment. What do I mean by that? If you want to bring on 8, 12, 16 wells offshore, you can very closely, with certainty, come up with the capital dollars that are going to be required to bring that reservoir onto production for 15 or 20 years.

In North America, it's a continuous capital investment. So it's just a different mindset. Yes, it's less up front, but it's continuous. It's not something you are ever finished investing in. And that has to do with the decline rates, et cetera, of the unconventional wells. Our viable investment decisions for our customers, our objective is to help them on both sides of the equation and if you will, be the partner of choice. We feel we have clearly established that in the Subsea, and there's more to come. On the quarterly call, we talked about Subsea Studio. It was a bit of a teaser, Sean. This is really, really going to be significant on the integrated front-end studies. So we've attacked the execution through iEPCI. But on the IP or the integrated front-end studies, they were still, let's say, very manpower-intensive. Now we're talking about going to a much more sophisticated, automated, using very sophisticated tools that are going to allow us to only -- not only shorten that cycle time, which, by the way, can be quite significant, but also take all the lessons learned from all the projects that we're operating around the world and bring those to every client every single time. They're very excited about this, and we're very excited about this.

In the unconventionals, our objective there is to focus on the sustainability part of that, Sean. We're going to shift away from being just a commodity product supplier, the only part of our portfolio where we provide a commodity product, the only part of our portfolio, which, as you know, is a very small portion of our total company. But when we come out of this, we're going to be a different company in North America. We're going to focus on the sustainability element. There are fundamental things that can be done using advanced technologies like we use in subsea on surface to be able to reduce the fugitive greenhouse gas emissions by up to 50%. And Sean, we're doing it today. So we're out there talking to clients now with real -- with a real operation in place and I can tell you, the level of interest is quite high because, again, that investment decision, sustainability in the greenhouse gas footprint associated with that production, is going to weigh into the investment decision. So it could be quite different going forward, Sean, than it has been. So I don't think we should expect -- I don't think we should rely on history in terms of how we're going to come through this cycle and where the investment from our clients is going to be going forward.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

That's really interesting, Doug. There's a lot to take in there. With the remaining time, let's make sure we just touch on the balance sheet, cash flow. You cut your CapEx by 1/3, you reduced the dividend. We've had some additional disclosure around where the cash is held across the various project JVs. We did see the amendment to the credit facility yesterday. Can we just talk about how you're seeing cash flow unfold, comfort with the balance sheet and liquidity here? It'd be great just to get your feedback there and thoughts going forward.

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Well, thank you, Sean, and I think it's a good point to emphasize and wrap up on. And we have a balance sheet that is incredibly strong. We're very proud of that balance sheet, but okay, there's big numbers on the balance sheet, but sometimes, it's been a bit complex because of the nature of the E&C business and the nature of the joint ventures that we operate some of those E&C projects, some of the larger projects, in particular. So it was important for us, as you pointed out, to continue to give increased level of granularity to ensure that the right conclusion is being made when analysts and investors look at our balance sheet so that they have the same level of confidence that we do. And the debt covenant is a wonderful example of that. There was a complete misunderstanding that led people to be concerned about the debt covenant and the write-down of the goodwill that we were required to do from an accounting practice that the impact that, that could have on us tripping that covenant. Just yesterday, as you pointed out, we put out an 8-K and clearly, clearly showed that there is actually more headroom than people envisioned that there was. So I think that's really, really important.

Laser-like focus. It's driving an absolute -- at the top of the list and the decisions that we're making. This is about the balance sheet. This is about liquidity. We're doing what we need to do to ensure that we can access the best liquidity in the market. We did that just a couple of weeks ago as well, which allows us to really kind of restructure things and make sure that we have the best vehicles in place, and we'll continue to drive very much our spending so that we can ensure that we are very much focused on cash flow generation for some operations. And with some of the big steps that we've taken, as you pointed out, on dividend, et cetera, including executive compensation cuts through the end of the year, not on a temporary basis for any quarter or the COVID period but through the end of the year, are all the, I think, the right steps that we're taking to ensure that we are in a position where we can generate the cash flow from operations and be very focused on delivering that to our shareholders.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Well, thanks for that, Doug. It seems like a good point for us to leave it as well. So again, on behalf of the team here at JPMorgan, thanks again for joining us today. It's great having you, and thanks, everyone. Talk to you in a bit.

Douglas J. Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you. Thanks for having us, Sean. Stay healthy.
