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PRESENTATION

Operator

Good morning. My name is Shelley, and I will be your conference operator today. At this time, I would like to welcome everyone to the TechnipFMC Second Quarter 2019 Earnings Conference Call. (Operator Instructions) Thank you.

I would now like to turn the call over to Matt Seinsheimer. You may begin your conference.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Good afternoon, and welcome to TechnipFMC's Second Quarter 2019 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 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, the French AMF and the U.K. Financial Conduct Authority. 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'll now turn the call over to Doug Pferdehirt, TechnipFMC's Chairman and Chief Executive Officer.

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Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you, Matt. Good afternoon and good morning. Thank you for participating in our second quarter earnings call. 1 month ago, we announced a resolution of investigations into conduct dating back over a decade ago, resulting in a settlement of $301 million with authorities in the United States and Brazil. This brings to close the compliance matters under investigation by all U.S. and Brazilian authorities. This conduct, taken by former employees, does not reflect the core values of our company. We have 0 tolerance for such behavior and are committed to doing business the right way. Our foundational belief of integrity dictates how we operate everywhere all the time. In recognition of our robust compliance program, there will not be a monitor assigned to the company in conjunction with this settlement, and we expect no impact to our ongoing business operations.

Turning to our business highlights. Strong order momentum continued throughout the second quarter. At over $11 billion, total company inbound orders represent an unprecedented level setting a new record for our company.

Subsea orders of $2.6 billion were in line with the robust levels experienced in the first quarter. In fact, Subsea orders for the first half of the year exceeded the levels achieved in all of 2018, and we are well positioned for full year Subsea order growth of over 50% when compared to the prior year.

For Onshore/Offshore, second quarter inbound of $8.1 billion was also unprecedented, a new record for this business segment. The award of Arctic LNG 2 drove quarterly inbound orders to levels that exceeded all of 2018 in the second quarter alone. And the impact of the strong first half orders to our backlog is substantial with total company backlog approaching $26 billion, an increase of more than 75% from year-end. This remarkable growth in backlog provides us with even greater confidence in our 2019 outlook, which we have revised higher today as a result of the continued strength in inbound and operational execution. The new order backlog received in the period also provides improved visibility as we look to 2020 and beyond.

Over the last 18 months, there has been considerable market focus on the LNG wave. The LNG market growth continues to be underpinned by the structural shift towards natural gas as an energy transition fuel, helping to meet the increasing demand for energy while lowering greenhouse gases. Our demonstrated leadership in this important growth market will continue as we anticipate additional LNG awards in the coming quarters.

There is a structural transformation called iEPCI that is occurring within the Subsea industry as a result of the creation of TechnipFMC. This paradigm shift was pioneered by our company, resulting in an entirely new commercial model that creates value for both the operator and ourselves. This unique integrated capability is now having a material impact on both the total market and our business. We have seen growth in integrated award activity every year since our introduction of this model in 2015.

The industry remains on track for continued growth in 2019, having exceeded $3 billion in integrated project awards in the first half of the year and we are referencing actual project awards as opposed to FEED studies that simply have the potential to convert into an award.

Even more compelling is the fact that TechnipFMC has secured 2/3 of all integrated projects awarded over this time with that number reaching 100% for the first 6 months of 2019.

During the quarter, we were awarded our largest integrated Subsea project to date for Anadarko's Golfinho development in Mozambique. Mozambique is a frontier region in the development of hydrocarbons. Significant Offshore natural gas reserves have made the country a clear beneficiary of increasing LNG demand. TechnipFMC was the first mover in Mozambique and this award further strengthens our leadership position in the region.

For the country's initial LNG development, we are progressing well with the construction of a floating LNG structure, the first for Africa and third for our company. On the same project, we are also executing contracts for much of the Subsea scope. And now we are honored to have been selected by Anadarko to execute the country's next Subsea development using our unique integrated model.

These projects are all benefiting from our expanded local presence having opened the first oil and gas engineering center in Maputo earlier this year, and we will make further investments to ensure we have the capabilities needed for continued participation in the country's expanding set of opportunities by further developing local expertise.

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Golfinho was also our first project undertaken in strategic collaboration with Allseas. This partnership enables enhanced access to world-class opportunities like Golfinho for both companies. We view this approach as the most efficient way to secure access to complementary assets and delivery capabilities, while avoiding significant capital investment and driving through cycle returns.

Most importantly, the Golfinho award is a part of the broader structural trend towards greater levels of integration on Subsea projects. We have clearly seen an acceleration in market adoptions since the first project was awarded in 2016, with this year's activity representing 20% of all Subsea industry awards. For TechnipFMC, the impact of iEPCI has been even more profound. Integrated projects exceeded 50% of our inbound orders in the first half of 2019.

More broadly, the integrated model has been adopted across multiple regions and with multiple clients. Several integrated awards have come as a result of our iEPCI alliances, which can lead to new market opportunities, most of which are exclusive to TechnipFMC and subject to direct award upon achievement of targeted financial returns.

Today, we are proud to announce our latest iEPCI alliance with Wintershall DEA, one of the largest E&P operators in Europe. This further expands our already successful partnership by creating additional value through integrated FEED, integrated EPCI and integrated life of field services for the newly formed Wintershall DEA.

In the second quarter, we inbounded the Arctic LNG 2 EPC contract. We are honored by the confidence and trust of Novatek and the opportunity to contribute to this exciting development. This is Novatek's second major LNG project in the Arctic region, an example and an award that exemplifies our experience in the delivery of large-scale modularized fabrication for harsh environments. The project will bring on-stream nearly 20 million metric tonnes per annum of new capacity comprising of 3 LNG trains on gravity-based structures. This is an innovative engineering solution we worked on extensively during the FEED stage of this project. We will leverage our recent successes from Yamal LNG through the continuity of leadership, execution model and lessons learned. We will also benefit from our extensive experience in complex module fabrication and integration obtained from projects, such as floating LNG and gas FPSOs that utilize a confined footprint.

The detailed engineering scope is well advanced and procurement activities will continue to ramp as long lead items are being ordered. The execution phase of the project will extend for several years with launch of the first stream currently expected in 2023.

Looking ahead, the future LNG opportunities set remains substantial. We continue to be very selective focusing on a strategic set of projects that we are pursuing today, some of which could reach FID over the next 18 to 24 months.

In closing, this was a very strong quarter for TechnipFMC. The unprecedented level of order activity experienced in the quarter demonstrates that we are winning with an intense focus on project selectivity and commercial differentiation.

Operationally, total company revenue increased 16% versus the prior year to $3.4 billion, with growth in all 3 business segments. And total company adjusted EBITDA increased 19% versus the prior year to $450 million highlighted by the notable strength in Onshore/Offshore and sequential improvement in adjusted EBITDA margins for both Subsea and Surface Technologies. The strength of these results and significant growth in backlog across all segments gives us even greater confidence that we will achieve our increased full year guidance and provides us with improved visibility as we look to 2020 and beyond.

I will now turn the call over to Maryann, who will cover the financial results.

Maryann Mannen - *TechnipFMC plc - Executive VP & CFO*

Thanks, Doug. We are very pleased with our second quarter results. We continue to benefit from both strong execution as well as risk mitigation on several of our key major projects. This is evident in our total company and segment results.

Total company adjusted EBITDA was $450 million and compares to $377 million in the prior year quarter with an increase in adjusted EBITDA margin to 13.1%. Adjusted diluted earnings per share from continuing operations in the quarter were $0.39 when excluding after-tax charges and credits

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of $0.18 per diluted share. Total after-tax charges and credits were $78.6 million, primarily related to legal provisions, business integration costs and severance charges.

The legal provisions, which net to $55.2 million in the period, included the following: a $70 million provision to maintain the probable estimate for the settlement of an investigation related to historical projects in Equatorial Guinea and Ghana; a $21.3 million charge related to the final settlement with the U.S. and Brazilian authorities to resolve investigations related to Brazil and Unaoil; and net litigation credits that included a favorable settlement for a commercial dispute.

Adjusted earnings per share also includes other pretax items impacting the quarter for which we do not provide guidance. These include $140 million or $0.31 per diluted share related to an increase in the liability payable to joint venture partners that is included in interest expense and $18 million or $0.03 per diluted share of foreign exchange losses included in corporate expense. On an after-tax basis, these 2 items totaled $0.34 per diluted share, and again these items are included in our adjusted diluted EPS of $0.39.

Turning to our operational performance by segment. Subsea delivered second quarter revenue of $1.5 billion, an increase of 24% versus the prior year quarter. This was primarily driven by increased project activity, including work associated with recent iEPCI awards. Adjusted EBITDA margin was 12.3%, primarily driven by strong project execution and further risk mitigation on projects nearing completion. Vessel utilization in the second quarter was 69%, in line with the prior year quarter.

In Onshore/Offshore, EBITDA margins improved to 18.7%, a 600 basis point improvement from the prior year results. This outperformance on full year guidance was driven by continued strength in execution and risk mitigation, most notably on the Yamal LNG project. Further, we benefited from the receipt of an incremental bonus for successful completion of key milestones on Yamal Train 3.

And in Surface Technologies, revenue of $421 million increased 5% versus the prior year quarter, driven by higher wellhead sales globally and frac rental services in North America, partially offset by reduced flowline sales. The decline in North America completions activity resulted in weaker pricing and an unfavorable product line mix negatively impacting adjusted EBITDA margin.

On a sequential basis, revenue increased 7% from the first quarter as growth continued outside of North America, where activity is trending towards low double-digit growth. Adjusted EBITDA margin increased more than 340 basis points to 11.1%. Our margins reflect the actions we took to address the internal items that impacted our first quarter results. The challenges faced in the North American market remain. However, the underlying improvement in operational performance helped our margins recover sequentially.

Turning to cash flow. We generated positive operating cash flow in the period of $97 million, benefiting from the receipt of customer prepayments on key project awards. We have now generated positive operating cash flow in each of the last 4 quarters.

Beyond the operating line, we remain disciplined with our capital spend. Capital expenditures were $92 million in the period, and we remain on track to meet full year guidance of approximately $350 million, excluding the impact of the sale leaseback transaction of $80 million we recorded in the first quarter for the dive support vessel. We ended the period with net cash of $840 million.

Given the strength of the first half and our outlook for the remainder of the year, we have increased confidence in meeting our full year guidance for positive cash flow from operations.

Looking to the back half of the year, we will incur $164 million in cash payments related to the settlements with authorities in the U.S. and Brazil in the third quarter. However, we also expect there will be additional prepayments associated with expected inbound awards. While the timing of operating cash flow will vary by quarter, we do expect the second half in total to be positive.

This quarter, we have shared additional disclosures for the Yamal LNG joint venture in Exhibit 6 of our earnings release. As a reminder, we consolidate 100% of the JV in our financial statements, although our ownership is just over 50%. When we think about the future profit of this project, we look at contract liabilities as an approximation for revenue. At the end of Q2, these amounted to $1.7 billion. As we reach project completion, this amount will be extinguished in 1 of 2 ways as cost paid to vendors or as profits for our partners and for us.

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Looking ahead to the rest of 2019, we expect to reduce this liability by approximately $400 million to $500 million. If we continue to execute well, as we have done for each of the last 10 quarters, a significant portion of this amount will become incremental profit shared between our partners and us.

For all of 2020, we anticipate another reduction of $400 million to $500 million in contract liabilities. The remaining balance post 2020 would be available to fulfill any warranty obligations that may arise. And should we continue to see strong execution, these anticipated reductions in the liability should also result in incremental profit versus incremental cost. Similarly with the warranty period, the absence of warranty claims would also generate incremental profit.

Once we have recognized profit, we record our partner's share as a mandatorily redeemable liability, also called the MRL. The current balance of the MRL is $413 million. We expect to pay the majority of this current MRL balance in the second half of the year. When combined with the first half payments to our partners of $221 million, 2019 will be the highest level of partner distributions for the project in any 1 year. We will see a significant step down in payments in 2020.

Turning to our 2019 financial guidance. Given the strong first half inbound, we now forecast Subsea revenue of $5.6 billion to $5.8 billion for the full year 2019 versus previous guidance of $5.4 billion to $5.7 billion. We're also revising our adjusted EBITDA margin guidance to at least 11.5% versus previous guidance of at least 11%. The revision is driven by the strength in execution in the first 6 months of the year and driven by the achievement of the milestones on certain projects.

For Onshore/Offshore, we are increasing our adjusted EBITDA margin guidance from at least 14% to at least 16.5% to reflect the strong first half results as well as our expectations for continued strength in the second half of the year. We are also reducing our expectations for net interest expense. We now expect net interest expense to be in a range of $30 million to $40 million for the full year, excluding the impact of the MRL, versus the previous guidance range of $40 million to $60 million. This revision is primarily driven by higher than anticipated interest income earned on our cash balances. We have modified our tax rate guidance to 26% to 30% for the full year. The rate now includes the discrete adjustments primarily associated with the valuation allowance recovery and provides the ability to use tax assets in certain jurisdictions in the future. And finally, we have now achieved the remaining $50 million in synergies related to our merger bringing the total synergies to our commitment of $450 million.

In closing, this was a very strong quarter for TechnipFMC. Our operating results demonstrated strong execution and risk mitigation in both Subsea and Onshore/Offshore and a significant sequential improvement in the operational performance of Surface Technologies despite the challenges faced in the North American market.

Order inbound momentum accelerated in the second quarter. We achieved a record total company book-to-bill of 3.3 supported by an acceleration in integrated awards, including our largest iEPCI to date, Golfinho, and our largest single project inbound to date, Arctic LNG 2. All these factors give us even greater confidence in our outlook for the remainder of the year, which is reflected in our upgraded guidance for both our Subsea and Onshore/Offshore segments. While total company backlog growth of 80% from the year-end provides us with much improved visibility as we look beyond 2019.

Operator, you may now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Angie Sedita from Goldman Sachs.

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Angie Sedita - *Goldman Sachs Group Inc., Research Division - Research Analyst*

First congratulations on a very impressive quarter and a really amazing first start to the year on your inbound orders. So on the integrated Subsea awards and just Subsea awards in general, certainly this model works and very few can compete with what you're offering at TechnipFMC. So we think about the pace of inbound Subsea orders into the second half of 2019 and even the pace into 2020 given this very strong order rate here in the first half, do you think that we will see some slowing in inbound orders in the second half of 2019 first? And then if we think about 2020, could 2020 be as strong as 2019 as far as inbound total Subsea orders?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you very much, Angie. And just before I start, I wanted to recognize all of you who are participating on the call today. I realize it's a bit of a, I guess, technically called the Super Thursday of earnings and particularly for the entities in Europe. So thank you all for taking time to be on our call. We're humbled by your support for our company.

Angie, so let's talk a little bit about kind of how things have materialized thus far. So it was a similar question on Q1. How could anything stack up to Q1 and then we delivered Q2 in line with Q1, whereas now the first 6 months of orders for our Subsea business has exceeded all of that of the prior 12 months or last year. As we look forward into the second half, we continue to see strong order activity. The absolute value will really be a function of 1 or 2 very large awards. There's a few billion dollar plus Subsea awards that are out there right now that could come in the second half of the year or in the beginning or the first half of 2020. Obviously, the timing of those awards would have a material impact both on our inbound and on the total market activity in terms of new orders, but we continue to see a very resilient market. We publish our view of the market, including the major opportunity set, as you'll see that has increased not decreased as a result of the activity this quarter where there were some very strong awards for our company, but that opportunity set has largely been replenished and you can see that in our backup materials. So we continue to have a very strong outlook in terms of the second half of 2019 as well as 2020. Again, it's a function of the timing of a couple of these very large awards if they occur in the end of 2019 or if they move into 2020.

Beyond that opportunity set that we publish on our Subsea outlook, I remind you, we have a proprietary opportunity set that we have been developing for several years through our integrated FEED activity, many of which when converted are exclusive to our company, including the announcement of another iEPCI alliance this quarter with Wintershall DEA, which we're very proud of.

So we have the market outlook, let's say, that is available, others participate in and then we have that proprietary opportunity set. So we'll see based upon the timing of a couple of big orders, which could occur in the first half of 2020 versus the second half of 2019, but we see the market as very constructive and in no way do we see this as an isolated event. We see this as a trend that will continue.

Angie Sedita - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. That's very helpful. And then maybe I can ask Maryann on the margin side first towards 2020 and then maybe beyond at a very high level. With the Arctic LNG 2 award, how does that change or does that change the margin progression in 2020? And again with this high-level of integrated awards on the Subsea side, could that imply that margins may be actually up in 2020 versus '19? And then longer term, I think, Doug, we've had a conversation about this. As we go into '21 and beyond, is it possible to return close to peak margins in Subsea near 20% given the integrated awards, but also with vessels coming on in '21, '22 and beyond and high utilization levels?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Yes, Angie, let me start with a few high-level comments and then Maryann will add additional color. Look, we believe that we've taken the necessary steps to provide a structural and sustainable change in Subsea project economics that is unlocking the potential of these projects and making them economically viable and competitive to other investment choices for our clients and meaning other geographies and other types of investment. That has obviously been working very well and we're seeing the benefit of that.

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We've also taken the necessary steps and benefited as a result of the merger, as Maryann indicated. We've now delivered the full guidance around pre-tax operating synergies 6 months earlier than planned. So we've now delivered the full $450 million of pretax cost synergies as a result of the merger. So when you put all of this together and we continue to innovate and develop the next generation beyond the current generation, our current generation, the next generation of Subsea assets, we remain very constructive on the outlook for the progression or for the expectations of our Subsea margins. I will add to that though it's a question of the progression of that margin. And what is true is as you point out, we are seeing capacity -- utilization improving in the out years '21, '22, which will certainly help with the expansion of the margin at that point in time. I think it's just we have to be prudent in the way that we model out the margin progression in Subsea, but it's clearly moving in the right direction and our very strong inbound, very high quality projects mainly being iEPCI representing over 50% of our inbound in the first half alone, gives reason to have increased confidence in our margin outlook. I will just, again, caution to temper a bit on the progression of that margin as we get through the second half of 2019, 2020, and then see the overall market capacity tightening in '21 and '22. Maryann, did you want to touch on the Arctic LNG contribution for Onshore/Offshore?

Maryann Mannen - *TechnipFMC plc - Executive VP & CFO*

Sure. Thanks, Doug. Angie, maybe just a little more color around Onshore/Offshore. As we think about it, Angie, risk management is a critical piece of the way we try to manage that project portfolio, frankly, across all of our portfolios. But in the very early stages of our contracts, we obviously take a very measured approach as we get through engineering phases and head to further plays and project completion. So I think very similarly to the way that you see perhaps even if you look at Yamal as a model, as we reach that final completion, our ability to avoid risks in the project allows us to generate greater profitability. I think that's a reasonable assumption, Angie, when you look at the way we'll start that very large Arctic project. We'll be cautious as we get through those early phases and that good risk management should allow us to have a similar profile in the future on Arctic.

Operator

Your next question comes from the line of David Farrell from Crédit Suisse.

David Farrell - *Crédit Suisse AG, Research Division - Research Analyst*

Congratulations on the results. I had a quick question on Arctic LNG 2 and the comparison to Yamal LNG in terms of how the contract is structured. I think Yamal was structured through a French entity and therefore encountered very high tax rates on it. I'm just wondering how the Arctic LNG 2 contract has been structured? And whether there's potential for improvement on tax rates there?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you, David, for the question, and thank you for the congratulations, but it really goes to the 37,000 women and men of our company who generated the results. Maryann and I just have the honor of representing them here today. Yes, indeed, the Arctic LNG 2 will also flow-through the French entity from a taxation point of view, at least a large portion of it will. The overall structure of the contract is in many ways similar to Yamal, although it is a different technology that is being used. But the way that we have structured the contract in terms of a large reimbursable scope and then the remainder as a lump sum scope is actually very similar to the Yamal contract.

David Farrell - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then just as a follow-up. It kind of feels as if we're in kind of the second wave of the integrated model for Subsea. I'm just wondering when you kind of look at the client base, do you think they're still experimenting with different vendor suppliers? Or do you they've kind of settled now on the companies they want to use?

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Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Interesting question, David. You see the results, right? So year to date 2019, we've received 100% of those integrated awards. So I guess, in some ways we are confident that we'll be part of the pack. We're currently obviously well positioned. I believe that the clients are looking to and, as you said, potentially experimenting with other opportunities to bring that same skill set through different companies.

I hesitate a little bit in my response, David, because it's very difficult, in our opinion, to deliver an integrated Subsea project due to the complexity and due to the trade-offs between the manufacturing and the installation as a joint venture or an alliance. I remind you we tried that path. We were unsuccessful. We recognized that the way to unlock real, sustainable, demonstrated value to our clients was to come together as a single company, remove the natural friction that occurs between the manufacturing and the installation activities and generate now as a result of having this incredible group of employees under one roof, the total R&D capability of the next generation of Subsea systems, including the integrated delivery system as part of that. So I do believe and we encourage additional integration. You see it happening. The market is clearly moving in that way. But I think it's very difficult to be able to deliver through such a structure at least it was difficult for us. We're much happier now as a single entity.

Operator

And your next question comes from the line of Dan Boyd from BMO Capital Markets.

Dan Boyd - *BMO Capital Markets Equity Research - Oilfield Services Analyst*

Fantastic quarter, congrats. Maryann, my question is for you on the cash flow outlook. Very clear on the second half of the year. And we talked about this previously, but as we think about the business normalizing, how should we think about targets of net income conversion to free cash flow? And given this order uptake and as things progress, should we expect a higher level of free cash flow in, say, 2020 as the order cycle continues to unfold?

Maryann Mannen - *TechnipFMC plc - Executive VP & CFO*

Yes, Dan. Thanks. So the answer to your question is yes we should, as we talked about the unwinding of Yamal in 2019 is a significant piece of that. It will take a step down pretty significantly in 2020. So we would expect from 2020 and beyond with the incremental addition of inbound awards both from the Subsea and the Onshore/Offshore side to see a much higher conversion of net income to free cash flow. I think when last time we talked, we were talking in a range of about 80% to 85%. I think the thing to keep in mind is we have some growth opportunities across the rest of the portfolio. And certainly, as we think about that growth, that would be part of the constraint there, but we certainly expect in 2020 and beyond much higher conversion in net income to free cash flow.

Dan Boyd - *BMO Capital Markets Equity Research - Oilfield Services Analyst*

Okay. And then just on Onshore/Offshore margins. If we think about a normalized level, I think you've talked around about 6% in the past. But now that you're through the full capturing of all the synergies on the deal and if I recall correctly, a large portion of those synergies were expected to be in the Onshore/Offshore segment. You're also seeing a big wave of LNG, as Doug has talked about. So taking all those into account, should we think about at least for the next sort of foreseeable future for the sort of non-Yamal margins to be above that range as you've talked about in the past?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

So Dan, a couple of thoughts here or a couple of considerations. First, the contribution from Yamal is not complete, as we, I hope provided greater visibility and made a bit clearer as a result of the increased disclosure around the Yamal project. So number one, it's hard to, from this point forward,

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it's hard to answer the question in that manner because again there will continue to be a contribution from the Yamal project, which has been a highly successful project.

In terms of the overall margin outlook without LNG, again, we have run this business and managed this business around quality versus quantity, ensuring that we match the projects with our demonstrated capacity to ensure a very successful outcome on the projects that we take on, both for our clients, ourselves and for you as our investors, and that remains our practice and our priority in terms of focusing on selectivity and ensuring that we have the capacity and the competency to deliver those projects.

So therefore, I would stick with our prior outlook, which was $5 billion to $6 billion in revenue with a 4% to 6% margin for this business ex LNG. And we said with LNG and with increasing percentage of LNG, you could see 200 basis points improvement as a contribution of the LNG activity. What is true is that the LNG EPC providers remaining that are fiscally sound and have demonstrated the capacity to deliver these type of projects is more limited than it was in the past and the opportunity set is great. So therefore, you should expect us to be very focused on ensuring that we have the right projects with the right terms that can drive the best financial results for our company.

Operator

Your next question comes from the line of James Evans from Exane BNP.

James Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Thank you for all the detail on Yamal, Maryann, very, very helpful. I wanted to ask a couple of questions about the future on LNG. Doug, obviously, great to see Arctic 2. You're bidding a lot of other projects. What's happening to the sort of the underlying cost trends? It looks like some of these fabrication yards, et cetera could get quite busy if everyone tries to replicate your very successful approach on Yamal modularization. So is there any danger of those sorts of yards filling up? And then sort of a second question sort of relates to that. Obviously, some concern about costs that I have just expressed. But obviously, this downward pressure on longer-term pricing in LNG we're sort of hearing about and a lot of projects at plants. So is there any disquiet from clients here? Or is it still absolutely full steam ahead in your conversations with them?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you, James. So a couple of things. Many of the LNG projects that are being considered today are still stick built. They are not modularized. So yes, there is increasing activity in the fabrication yards because of the success that we've had not only on Yamal LNG, but on other Subsea and Onshore/Offshore projects where we focused on modularization. I think we have -- well, we have demonstrated experience and we have very good relationships with those yards. I believe they see us as a partner of choice when they are considering our projects versus other potential projects.

Culturally, execution model-wise and ultimately project success drives that alignment in that relationship. So you are correct to point it out. It is something that we're well aware of, but we believe by having the experience that we have gained across multiple different yards and having optionality across those fabricators and a very good sense of partnership that we will ensure that we select the right yards and that we can, therefore, deliver very successful projects.

If I captured the second part of your question correctly in terms of the client outlook, how would I describe it? I think there is an accelerated pace, realizing that not all LNG projects will be sanctioned this wave. There's more projects than can potentially be sanctioned. And because of some of the tightening constraints in some geographical markets, for instance, the U.S. Gulf Coast, where manufacturing capacity is becoming -- construction capacity, excuse me, is becoming a significant concern. I think that you see some projects in other parts of the world, maybe, if you will, accelerating in the queue potentially just as a result of the overall capacity in the market. So look, we continue to be widespread as I've indicated before. Our targeted strategic projects are spread around the world. If we have future announcements and we certainly intend to, but we would have different partners on the projects and you would see us projects be announced in different geographies. We believe these are all good ways to mitigate risk and manage the portfolio approach. And again, in those more challenged environments, we would always partner with somebody who had those capabilities that could -- we could ensure that we would have access to the right talent to be able to deliver those projects. But if anything I would

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say I've seen a bit of an acceleration, not a deceleration in terms of the desire of -- especially our major clients to bring forward the sanctioning of LNG projects.

Operator

Your next question comes from the line of Sean Meakim from JPMorgan.

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

Doug, we've been talking for the last few years about the integrated model as a way to grow the pie of potential projects and enable FTI to take a bigger slice, despite the fact that you already had the largest market share historically. And so it seems that the first half of this year really validates that strategy. But if you go back a couple of years, I remember you were taking some heat for holding on to engineering talent ahead of this order cycle when we were at the trough. And so now that you've got $25 billion of backlog with still more on the way, could you just talk a little bit about the execution fairway? And how you prepared to manage the throughput over the next few years in terms of engineering and manufacturing capabilities?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Thank you very much, Sean. Indeed, our engineering capability and competency along with our project management competency and capability are 2 of our differentiating strengths, always have been and continue to be. And as you pointed out, we made a decision to hold on to those resources even when it meant a bit of under absorption.

Likewise, if I could extend the conversation for a moment, recall, we did the same with the fleet. So back in the prior years when there were vessel only or if you will T&I-type contracts that were on the market, very competitive, many of our competitors having larger fleet sizes than ourselves and therefore the problem set being a bit more substantial for the industry. We saw very aggressive pricing. And those projects will have to flow through. We sat that out as you recall. And we said we were going to hold back the capacity and utilization of our fleet to put those onto integrated projects. I think I remember saying, it will be clear if I'm wrong because if we don't announce integrated projects that will absorb the capacity of the fleet, then that would obviously have been a poor decision. The good news is we have and we continue to. And as you know, since our last earnings call, we've announced 3 additional integrated projects, again, representing now 50% of our total awards to date, and we have received 100% of those awards.

We have a good line of sight on additional integrated projects that we will be awarded most likely in the coming quarters. So we will see the benefit of that. Now that will flow through obviously in the '21, '22 because we have to go through the manufacturing phase before we can go through the installation phase of those contracts. So look, we manage capacity very, very closely. We understand that at the end, we are a projects company. It's important that we have the right capacity to be able to deliver on these projects, and we're quite comfortable because of the decisions that were made that we have that capacity to be able to deliver world-class projects for our customers.

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

Got it. And then maybe a little more on the near term. So maybe spend a little more time on the puts and takes to the implied 11% Subsea margin guidance for the back half of the year. So obviously, very good result in 2Q. It sounds like some project completions helped that number. Vessel utilization was also quite good, but maybe in line with what you'd expect seasonally. So what are the factors that influence the shift in guidance for the back half and confidence you have in that floor?

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Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Yes, Sean. So you can see, obviously, we raised our Subsea margin guidance from at least 11% to at least 11.5%. And you are correct. Mathematically, if you look at that, it implies back-half guidance -- back-half result of at least 11% to reach that guidance. Look, always good to be ahead of the game, always good to get a good early start to the year, both from an inbound point of view, again, just staggering to look at our results, 6 months of inbound, exceeding the whole prior 12 months, which by the way was 27% above the trough. So quite significant and the book-to-bill obviously reflecting that as well and the growth in the backlog. So these things all give us increased confidence, and we are always prudent in the way that we approach the guidance and how we set the targets. And we believe at this time, based upon what we can see and indeed as you point out the fact that the vessel utilization, we stick with our prior guidance of 50% to 55% for the full year so that this was indeed a bit of a seasonal effect. We think it's the right place to increase the guidance for 2019. A lot of positive things happening but it just takes a bit of time for those to develop.

Operator

Your next question comes from the line of Guillaume Delaby from Societe Generale.

Guillaume Delaby - *Societe Generale Cross Asset Research - Equity Analyst*

Congratulations. Two questions, if I may. First, Doug, regarding the Subsea business, I would like to have your view regarding 2020, i.e., the decline in North America spending, which is likely in H2 2019. Is it temporary according to you? Or do you see it as maybe a little bit more structural? First question. And my second question is for Maryann. Just would like to know, if you could elaborate a little bit more about the cash flow profile of Arctic LNG 2 because I thought -- I think, I wrote that somewhere that the cash flow profile might be less frond end loaded than Yamal. So cash flow may -- it may be a more balanced stream according to different milestones?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Two interesting questions. Thank you very much. I wish I could reverse the order with Maryann because answering to the first question, as you well know, no one will get it right. So let me talk about the North American market and the way that we see it. So I'm going to step back and remind you that for our Surface Technologies business, approximately 50% of our business is outside of North America. That business we have seen an inflection in activity and we are now seeing an inflection in pricing. So we have a very constructive outlook for our business outside of North America, which comprises 50% approximately of the segment.

Now turning to the North America market. The way we will manage towards the market is, I think, quite unique. There's 2 parts of our business that serves the North America market. One is the support that we provide, where we provide the very high-end consumable equipment to the pressure pumping industry to allow them to safely and efficiently provide the hydraulic fracturing services. And the second part is the conventional product business in the North America market. We will plan conservatively that there will not be a significant recovery. I'm not necessarily saying that I believe that will be the case in 2020 versus the second half of 2019 as you pose the question, but we're going to plan that way. And let me explain why. Much of our business is not tied to the drilling and completion activity. Increasingly, it's tied to the production activity. So you will see us continue to put forward a strategy that allows us to further differentiate our business and to move our business from being heavily drilling and completions related and more production related. The reason that's important is that the production activity, the production spend will continue to increase even when the drilling and completion market is flat and that's just a function of what's called stacking, the stacking effect in the North America market, and we can talk more about that perhaps at a later date, but a very exciting opportunity for us in a way that we will transform our business. Maryann?

Maryann Mannen - *TechnipFMC plc - Executive VP & CFO*

Yes. Thank you. And for your second question regarding the cash flow, if you will, for Arctic 2. First and foremost, it is clearly our operational objective as we set out for all of our projects, but clearly for Arctic that we maintain obviously a cash flow neutral or a cash flow positive position across the life of this very large project. In the quarter, we were successful with receiving one of several payments that we expect in the very early phase of

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the contract, that will also allow us to have a similar profile, if you will, to Yamal. Having said that, the size of these projects are a bit different and so may not have exactly the same profile as you may remember from Yamal, but very similar in its structure in terms of the early phase advance payments and the cash flow mechanism, if you will, that we, or the profile that we will maintain over the life of that project.

Operator

Your next question comes from the line of Kurt Hallead from RBC.

Kurt Hallead - *RBC Capital Markets, LLC, Research Division - Co-Head of Global Energy Research and Analyst*

Congratulations on a phenomenal run over the last 12 months. So kudos everybody there in your organization and kudos to you guys as well. So Doug, I just maybe hit on one of the earlier topics with -- along with the success you've had on project awards and increased backlog for both Subsea and for Onshore/Offshore. Can you walk us through a little bit more about the dynamics play on the execution front? And what you're driving within the organization to maintain that execution profile that you've had in the past, right? This -- a lot of this, as you've mentioned, some of it's unprecedented in terms of the backlog that you have in the business. That's one part of the question. Second part of the question is with that increase in activity, project awards and so on, what are you doing to kind of mitigate cost creep if that's possible at all?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Sorry, Kurt. I didn't have my button on. So thank you very much for the question. I got to practice it there on mute. So I'll start again. It's important to note that the activity levels, even though quiet robust that we have reported in terms of inbound, are below that of our demonstrated capacity both in Subsea as well as in LNG, specifically. So we're very comfortable with the continuity, particularly of leadership and project management directorate that we will continue to provide exceptional project execution to our clients. That's what our clients entrust us with some of their most important and complex projects in their portfolio. And our commitment to them and to you, as the investment community, is that we will ensure that we only take on those projects where we are confident that we can provide excellent results in terms of execution. And this was key to the earlier question of why we invested and maintained and developed our capacity during the periods of activity that were not as robust. In terms of cost creep, we obviously consider that in all of our contracts. There is either cost escalation built in, tied to an index or there's just a general cost escalation calculation that's done at the time of the signing of the contract.

Kurt Hallead - *RBC Capital Markets, LLC, Research Division - Co-Head of Global Energy Research and Analyst*

Great. If I have time for maybe one follow-up. Given the tremendous success you guys have had in capturing these project awards and as you mentioned kind of driving a paradigm shift in the ways your customers are kind of looking at these projects. I'm just curious, do you get a sense that the competitors within the Subsea space are getting pulled in your direction? Or do you think there may be a dynamic here where the lack of market share, if you will, or the market share gains on your part might result in some questionable pricing behavior from your competitors. Can you give us a general sense on how you might see that dynamic play out?

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Kurt, briefly, I think it's difficult to predict what the competitors will do. We're focused on our strategy and being successful in the execution of our strategy. Look, I think I'm not so much worried about unpredictable-type behaviors. I think people understand the opportunity set, and I think there's maturing understanding of the growth of the market. Will this lead to further restructuring or not, I leave that up to our competitors, but I'll tell what, we're really glad we did ours back in 2017 versus considering something like that right now at this point in the growth cycle of our major markets.

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Operator

And we have reached the end of our Q&A session. And our last question comes from the line of Amy Wong from UBS.

Amy Wong - *UBS Investment Bank, Research Division - Executive Director and Analyst*

I have 2 questions related to your Subsea business play. The first one is just can I get an update on your Subsea equipment manufacturing facilities, precisely more the Subsea tree manufacturing and the flexible pipes manufacturing. What the utilization rates there are for this year? And with the orders booked to date, what do you think the utilizations can be higher or lower in 2020? That's my first question. And my second question is just a bit more going back to revisit the Subsea margins. A question we asked earlier in the year was whether 2019 was going to be the trough for the margins in that business and at the time early in the year you answered, you know we going to kind of see how the order flow goes through 2019. Now that we're halfway through the year and with all the bookings that you have, do you feel confident, if you can answer whether 2019 is the trough for the margins? So those are my 2 questions.

Doug Pferdehirt - *TechnipFMC plc - Chairman of the Board & CEO*

Actually, a great question to end with. We don't give utilization of our individual manufacturing facilities. I will say we've been very prudent in the way that we've invested in our manufacturing facilities, including moving and incorporating robotics into our plants to extend the capacity without having to extend roofline. In addition to that our next generation of Subsea equipment, which we call Subsea 2.0, actually is a much faster cadence through the manufacturing facilities, thus allowing us to extend our demonstrated capacity through a similar roofline or even a reduction in roofline. Specifically to your question, yes, we expect 2020 utilization or absorption of our manufacturing footprint to be greater than 2019. And indeed at this point in time, given the success that we've had in the first half of the year and our outlook, we would expect that 2019 is indeed the trough for Subsea margins.

Operator

The Q&A session has ended now. I would like to turn the call back to Mr. Matt Seinsheimer.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

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

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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