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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello. And thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the TechnipFMC second-quarter 2025 earnings conference call. (Operator Instructions)

I would now like to turn the conference over to Matt Seinsheimer, Senior Vice President of Investor Relations and Corporate Development. Please go ahead.

Matthew Seinsheimer - *TechnipFMC PLC - Vice President - Investor Relations*

Thank you, Regina. Good morning and good afternoon and welcome to TechnipFMC's second-quarter 2025 earnings conference call. Our news release and financial statements issued earlier today can be found on our website.

I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs, and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements.

Known material factors that could cause our actual results to differ from our projected results are described in our most recent 10-K, most recent 10-Q, and other periodic filings with the US 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 Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Thank you, Matt. Good morning and good afternoon. Thank you for participating in our second quarter earnings call.

Total company revenue in the period was $2.5 billion. Adjusted EBITDA was $509 million with a margin of 20.1% when excluding foreign exchange impacts. We generated free cash flow of $261 million and distributed $271 million through dividends and share buybacks further demonstrating our commitment to return a significant portion of free cash flow to shareholders.

I am very proud of what our team has accomplished. This was another solid quarter driven by continued strength and execution from both the commercial and operational teams.

I regularly speak to transformation we have made in Subsea to achieve meaningful and sustainable improvements. These include the complete reinvention of our commercial models, the development of configurable product offerings that provide solutions to our customers' unique challenges, and the optimization of operational workflows that drive continuous improvement in everything we do.

But I also want to recognize the much-improved performance of Surface Technologies, a direct result of a similar transformation, driven by the right leadership, focused on the right customers in the right markets, and executing with the team working in new ways that are fundamentally changing the way we operate our business today.

In North America, this means doing more with less. Here, we exited unprofitable markets and product lines, and we have closed and consolidated facilities throughout the region. In fact, including the actions taken in the second quarter, we have reduced our North America footprint by 50% over the last three years while improving operating margins and increasing cash flow.

Looking beyond North America to the international markets, which today represent nearly two-thirds of our Surface Technologies' revenue, we continue to focus on core markets with longer term production growth ambitions where our strong customer relationships and technology leadership can provide unique avenues of growth for our company.

Now, moving to Subsea orders. We achieved $2.6 billion of inbound in the quarter, representing a diverse set of awards. We continue to benefit from our unique combination of iEPCI, Subsea Services, and direct awards. Subsea Services were particularly robust, representing one of the highest quarterly inbound levels ever achieved.

I would also add that while brownfield activity remains strong, nearly half of our project inbound was tied to greenfield developments. We look forward to sharing more about some of these projects in the coming weeks.

The uniqueness and diversity of our order book gives us continued confidence in delivering more than $10 billion of Subsea inbound for the year. Our differentiated orders, most of which are direct awards to our company speak in part to the strength of our customer relationships, which we work to build and enhance every day.

I'm proud to announce we recently entered into a new iEPCI collaboration agreement with Vår Energi, supporting their subsea developments on the Norwegian continental shelf. Working together, we will utilize our integrated execution model to optimize development solutions and maximize value creation.

Our differentiation goes beyond customer relationships. It is also fueled by technology leadership. We have been pioneering technology for decades, and we are constantly working with clients to solve their unique challenges.

For instance, in partnership with Petrobras, we recently developed the technology behind HISEP, a high-pressure separation process that enables the capture of CO_2-rich dense gasses directly from the well stream, all taking place on the sea floor.

We have also been working with the same client to create a definitive solution for stress corrosion cracking that occurs in flexible pipe applications where there is a very high CO_2 content, predominantly in pre-salt fields. We approached this industry challenge as a technology leader. Rather than simply evolving to the next iteration of an existing product, we set our sights on an innovative technology that would retain the advantages of flexibles but provide unrivaled corrosion resistance without compromising on other attributes such as weight.

Product weight significantly impacts the design of the entire Subsea architecture and can influence other major cost drivers, such as the vessel requirements for the installation campaign. Our new hybrid flexible pipe is both disruptive and scalable and is fully aligned with our goal of delivering certainty through industrialization.

We continue to advance our solution and are currently in the qualification process. Importantly, we have created a solution that can be used more broadly in applications that extend well beyond the pre-salt.

Another focus of innovation is all electric technology. Last year, we were awarded the industry's first all-electric subsea system for BP's Northern Endurance CCS project. This flagship project shows the critical importance of electric technology and the opportunities it can help clients realize.

However, carbon capture and storage is just one application and electrification is not a one size fits all solution. Additionally, the use of all electric technology can be extended beyond new developments. It can also help our clients exploit their sizable existing portfolios, including systems that are currently operating on the seabed today.

Here, we are collaborating with Petrobras to extend the performance of existing production systems using electric solutions. Whether it be new commercial agreements like our iEPCI collaboration with our Vår Energi, or the development of innovative technologies like hybrid flexible pipe and all electric, we are honored to be our client's trusted partner and the team they turned to for their most challenging projects.

Turning to the outlook. Offshore activity remains robust. Front-end engineering activity is strong. And our Subsea opportunity list remains healthy with named projects progressing across multiple basins over the next 24 months. This supports continued strength in Subsea inbound.

In Guyana, where a significant ramp in production is already underway, we are excited about the progression of future projects sanctioning. And we also see emerging potential for brownfield opportunities to provide incremental activity in the region.

Mozambique continues to be one of the most promising areas for new development, particularly in gas. Suriname is also exciting as we were recently awarded an iEPCI contract from TotalEnergies for the first oil and gas development in the region. TechnipFMC is also involved in front end engineering for multiple operators in the Orange Basin offshore in Namibia and the surrounding area in South Africa.

Taken together, these constitute a rich set of near-term opportunities even before considering other frontier developments in the Americas, Eastern Mediterranean, and Asia. We continue to believe that offshore markets will attract more capital due to the superior quality of these abundant reserves, their broad accessibility to operators, and the strong economics these resources provide, which we aim to further enhance in part through greater execution certainty.

In closing, the market is not without challenges. However, as our results clearly demonstrate, we are navigating the issues and mitigating the impacts to our company. This reflects both the actions we are taking today and the structural changes we have made over the last several years.

We have emphasized the importance of new commercial models and configurable product offerings as key enablers to our continued success. Our inbound also highlights the importance of strong and enduring customer relationships. This is further supported by our legacy of technology innovation focused on solving some of the industry's biggest challenges.

Our visibility into the market continues to benefit from the high level of direct awards to our company. Our unique opportunity set also gives us confidence that we will reach our three-year goal of $30 billion in Subsea inbound by the end of this year. And we see strength in offshore continuing, supported by client discussions for projects that are likely to be sanctioned through the end of the decade.

I am very proud of the financial results we shared today and want to acknowledge the unwavering efforts of our global teams that continue to drive our performance to higher levels.

I will now turn the call over to Alf to discuss our financial results and more importantly, our strengthened outlook for the balance of the year.

Alf Melin - *TechnipFMC PLC - Chief Financial Officer, Executive Vice President*

Thanks, Doug. Inbound in the quarter was $2.8 billion, driven by $2.6 billion of Subsea orders. Total company backlog increased 5% sequentially to $16.6 billion. Revenue in the quarter was $2.5 billion.

Adjusted EBITDA was $509 million when excluding a foreign exchange gain of $12 million and restructuring impairment and other charges totaling $16 million, most of which were related to business transformation initiatives in Surface Technologies.

Turning to segment results. In Subsea, revenue of $2.2 billion increased 14% versus the first quarter. The sequential revenue improvement was largely driven by increased iEPCI project activity in the North Sea and higher installation activity and flexible pipe supply in Brazil offset in part by project completions in Asia Pacific.

Services revenue also increased due to seasonal improvements. Adjusted EBITDA was $483 million, up 44% sequentially due to strong execution, improved earnings from backlog, and higher project and services activity. Adjusted EBITDA margin was 21.8%, up 450 basis points from the first quarter.

In Surface Technologies, revenue was $318 million, an increase of 7% from the first quarter. The sequential increase in revenue was driven by higher project and services activity in the Middle East, modestly offset by lower activity in North America.

Adjusted EBITDA was $52 million, an increase of 12% sequentially due to the higher project and services activity in the Middle East, modestly upset by North America. Adjusted EBITDA margin was 16.4%, up 70 basis points versus the first quarter.

Going into corporate and other items in the period. Corporate expense was $27 million. Net interest expense was $14 million and tax expenses in the quarter was $106 million. Cash flow from operating activities was $344 million and capital expenditures were $84 million. This resulted in free cash flow of $261 million.

We repurchased $250 million of stock in the second quarter. When including $21 million of dividends, total shareholder distributions were $271 million. During the quarter, we repaid EUR200 million of private placement notes that matured in June, reducing our gross debt to $696 million.

We ended the period with cash and cash equivalent of $950 million. Net cash decreased modestly to $254 million.

Moving to our guidance. For the third quarter. We expect Subsea revenue to grow low- to mid-single digits sequentially with an adjusted EBITDA margin that is similar to the 21.8% reported in the second quarter. For Surface Technologies, we anticipate revenue to increase low-single digit sequentially with an adjusted EBITDA margin of approximately 16%.

Moving to our full year outlook. For both Subsea and Surface Technologies, we continue to expect revenue to come in near the midpoint of their respective guidance ranges. However, we are increasing our expectations for adjusted EBITDA margin, which we now expect to come in near the top end of the guidance range for both segments.

When including corporate expense at the midpoint of guidance, we anticipate total company full year adjusted EBITDA to approximate $1.8 billion when excluding foreign exchange. Our current estimated impact from tariffs is contained within our updated guidance.

With the improved operational performance, we now expect free cash flow to come in near the top end of the guidance range of $1 billion to $1.15 billion. All other guidance items remain the same.

In closing, given the strength in Q2, we have solid momentum as we enter the second half of the year. We have increased our full year guidance for total company adjusted EBITDA by $40 million with an expectation that we will now deliver $1.8 billion in 2025, an increase of 30% versus the prior year. This guidance is supported by our substantial backlog and continued strength in our execution.

Through the first six months of the year, we have distributed 85% of free capital to shareholders. We are reiterating our commitment to distribute at least 70% of free cash flow. And given the strength of our balance sheet, we certainly have the flexibility to exceed that level.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Anderson, Barclays.

J. David Anderson - *Barclays Services Corp - Analyst*

Thank you. Good morning, Doug. How are you?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Good morning, Dave. And yourself?

J. David Anderson - *Barclays Services Corp - Analyst*

I'm doing great. So another strong subsea order book this quarter. Clearly, you're confident beating the $10 billion target this year. I was hoping you could break down sort of the composition a bit more and kind of how you see it changing this year.

I'm first curious about the services. You called about services being very strong this quarter. I'm curious it was kind of a one-off where this is a new trend.

And secondarily, as you're expecting more awards in the second half, I'm curious if you're expecting more awards in the second half to come from the Subsea opportunities list or is that more like the iEPCI direct awards.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure, Dave. Thank you. So regarding Subsea Services, I think it's evident that we have been successful in the marketplace and our clients' adoption of our iEPCI and Subsea 2.0, which has resulted in a significant number of direct awards, meaning they don't go to competitive tender, they're just direct awarded to our company, has changed the market dynamic, let's say. That results in us having an ever-increasing installed base on the seafloor.

This is an OEM model. We inspect, maintain, repair, service all of our products that are on the seafloor, typically for a 20- to 35-year life, depending upon the design of the equipment and the requirement of the contract. So a very long sustainable tail of services, which is increasing in size as we've been more successful as we talked about a moment ago.

So when you put the two together, it's certainly a very positive trend for our Subsea Services business. We talked about the growth last year where we had achieved $1.6 billion for Subsea Services and we said that it would grow in line with revenue again this year or approximate $1.8 billion. And I can confirm that that is indeed the plan.

So yes, no one off, just a this is a result of the strategy of the company, the winning rate that we have had, the success, the repeat orders, the direct awards, the unique alliances that we have been able to form and the continuous focus on supporting those through innovation and technology, superior execution both in terms of the project execution, but also the service execution has set up our Subsea Services business to be a very strong and important component of our inbound.

I believe there was a second follow-up, and I missed I lost it already. I --

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J. David Anderson - *Barclays Services Corp - Analyst*

I was just sort of asking, You have your Subsea opportunities list, which you update. I'm just curious. You're talking about the direct awards, which are different from that. I was just curious. Are more -- in the second half, are more awards kind of shifting more towards the Subsea opportunities list? Is it more the direct awards side? Just kind of curious how that's shaping up.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Yeah, a good question. And just to remind everyone else, we publish the industry's Subsea opportunity list, those opportunities that are likely to FID over the next 24 months broadly across the industry. So that's something that can be used as a reference document and we update that every quarter, which we did again this quarter and that list has continued to grow.

But there's also a secondary list that is very important and exclusive to our company. And this is a result of the fact that we have the only iEPCI and Subsea 2.0 offering, which results in us working in the very early stages, typically two to three years before a contract is awarded exclusively with our clients to develop a subsea architecture that is unique and quite frankly can't be designed or developed by others because they don't have the tools and resources and technology that we have.

So they work with us on a proprietary basis. And then those projects, when and if they go to FID, are direct awarded to our company. That list, I will tell you, is also growing. So both the public list and the private list, for lack of a better term, are both growing in size.

In terms of the mix in the second half, where is it likely to come from, I think it will continue to be strongly supported by both of those. And I think I am confident that our level of direct awards will continue to be very robust, which means that private list is very, very critical to our company.

J. David Anderson - *Barclays Services Corp - Analyst*

And Doug, if I could sneak one more in here, I know it's early, but I was wondering if you could just kind of give us an early look at how you think orders are starting to shape up for 2026. Based upon what you were just saying there, is another $10 billion in 2026 a reasonable assumption at this time?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Yes

J. David Anderson - *Barclays Services Corp - Analyst*

Thank you.

Operator

Marc Bianchi, TD Cowen.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Hey, thank you. I wanted to drill down a little bit more into the services success that you had this quarter. And specifically, it sounds like the services orders were quite strong. I'm curious if the revenue was also strong because historically this was like a book and ship type of business, but I think more recently some of that's been going into backlog. So maybe you could talk a little bit about that and how we should think about the growth of services for 2025 and beyond?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure, Mark. You correctly point out it's largely a book and turn, but we do have a backlog and a growing backlog actually in our services business. And that just depends upon the type of awards and the nature of the awards that we receive. But the majority is book and turn. So yes, if inbound is strong, revenue is most likely to be strong as well. So I can confirm that to the first part of your question.

In terms of the growth and the trajectory, as I was commenting earlier to Dave's question, the installed base as a significant contribution to that very long and sustainable services revenue, again, over decades following the initial project. Clearly, we've been successful. And if we've been successful on the project side and on the Subsea inbound side, that will reflect in the Subsea Services growth, not only at the time of the award, but again, very importantly, creates a very long sustainable important contributor to our company going forward.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Doug, I think previously the outlook was for services revenue to grow in line with all of Subsea for this year. Is that still the case or are we seeing an acceleration of that?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Let's stick with the current guidance itself there, is the $1.8 billion which would be in line with the revenue growth. But I'm very confident that our Subsea Services will continue to respond very favorably.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Super. And if I could just ask one really quick from Alf. The corporate has been running quite a bit below the mid or right quite a bit below the guidance range here. But you'd frame the guidance, the updated guidance with kind of solving for the corporate at [$120 million]. What's going on there? And how should we think about that once we get past the back half of this year?

Alf Melin - *TechnipFMC PLC - Chief Financial Officer, Executive Vice President*

No. I appreciate the question. Clearly, there is some timing in this. As a reminder, corporate expense includes executive management expense and corporate functions as well as some programs. And there are some timings in spend the first half versus second half in our programs and in particular the spending for upgrading our ERP environment that has a higher run rate in the second half compared to the first half.

Marc Bianchi - *Cowen and Company LLC - Analyst*

Got it. Okay. Thank you very much. I'll turn it back.

Operator

Scott Gruber, Citigroup.

Scott Gruber - *Citi Infrastructure Investments LLC - Analyst*

Yes. Good morning. I want to come back to the inbound details that you mentioned, Doug. You mentioned that we'll hear more about some greenfield projects in the coming weeks. Will those be included in your 3Q volume? Or are we going to get the details on some projects that were included in 2Q?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Thank you, Scott, and good morning. And the answer is most likely both. So I would fully expect that you'll hear about some Q3 awards that will be inbound in Q3. But there is -- there will be some press releases potentially in the coming weeks that will refer back to the awards that we had received in the second quarter.

And look, I want to be clear. The only reason that occurs is if the client or the host country or someone involved has set a requirement around the disclosure of such a public disclosure of such award. Once we receive all of the requirements to be able to inbound per our internal requirements then we are obligated to inbound that and account that for the current quarter. So I think you'll be hearing about some awards, some of which will refer back to Q2, but some will also be Q3 awards.

Scott Gruber - *Citi Infrastructure Investments LLC - Analyst*

I appreciate that. I'm just trying to get a sense for the brownfield and the small projects because just contemplating history, usually when crude prices moderate, the elevated returns and lower capital intensity of the brownfield projects kind of drive a mix shift toward tiebacks and brownfield. But this cycle, it seems like the appetite for greenfield remains robust. You see it in your project list, but it also seems robust on the brownfield side.

Can you just kind of discuss the appetite for brownfield and large greenfield kind of both sustaining even in light of more moderate crude prices? Does that just reflect the volume of capital dollars kind of shifting towards deepwater? Some color there would be great.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Scott, thank you. I mean, that's one of the key takeaways that I would hope everyone takes from this call and referred to it in my prepared remarks. There has been an absolute focus and commitment to moving offshore greenfield projects forward. We've seen no change in that behavior.

And as a matter of fact, the visibility that we now have, including conversations that I had just as recently as yesterday with a major operator, there is a firm commitment to moving these projects forward for a variety of different reasons, including commitments that they have made, their visibility into the market, and understanding that these are projects that will take multiple years before they come online and are producing. So they're looking at their models and their forecast as well as, as you said, the capital flow, which is now, let's say, prioritizing the offshore versus other investment opportunities of the past decade.

This is a significant amount of additional capital coming into the offshore market. So the greenfield has remained very resilient and the brownfield has been steady. And that really shows up in our unannounced awards, which based on your earlier question, I've indicated that there was probably a couple more projects that would have could have been announced in Q2, but the client did not have -- we didn't have the opportunity to do so, but we will in the coming weeks.

Even if you take those into account, let's say the unannounced bucket, which is direct awards and a lot of it is the brownfields and the smaller type awards is still approaching $1 billion. So the brownfield activity is very strong.

You correctly point out and that it is extremely constructive in terms of economics, very little capital investment required because the host facility already exists. The host facility is normally operating below nameplate capacity. So if you will, you're improving the returns on that initial investment by adding the incremental barrels without the significant upfront capital costs, which is often associated with large greenfield projects.

So we're very focused on the brownfield market in an area we continue to innovate in, including the application of all electric, which will increase the radius around an existing host facility for up to 4 times further distance that we'll be able to tie stranded reserves back to a host facility. So increasing the total available market, if you will, for brownfield opportunities. So that remains very important as well.

Scott Gruber - *Citi Infrastructure Investments LLC - Analyst*

I appreciate the color. Thank you, Doug.

Operator

Arun Jayaram, JPMorgan Securities.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Hey, good morning. Doug, I wondering if you could highlight what you're seeing outside of the Golden Triangle across the globe and perhaps some emerging areas where we could see some FID activity over the next, call it, 12 to 24 months as well as maybe address some of the recent question marks around Namibia.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure. And good morning, Arun. I actually think we probably need to redefine the Golden Triangle because I don't know if it's a polygon now or what. I'll have to think about that, but it clearly has changed. And just a historical reference for those on the call, the Golden Triangle really being the North Sea, West Africa, and Brazil encompassing the Gulf of Mexico. So it's really changed quite dramatically.

Those activities remain robust. Norway is particularly important and continues to be a key source of energy security to Continental Europe. The US Gulf continues to be very active, not only in brownfield activity, but now with the Paleogene in greenfield activity. And that's a very important area for our company where we provide our 20K solution for the Paleogene.

West Africa, indeed, has slowed down over the last decade, but we're seeing increased activity. We announced an award in Nigeria not that long ago, and we see increasing activity in Angola.

Now, you have obviously had the strength of Brazil and the continued commitment by Petrobras and other international operators, which is very important. There're multiple billion-dollar projects going on in Brazil operated by international oil companies as well as Petrobras.

And now we have Guyana, and we all know the importance of Guyana and certainly the importance of Guyana to TechnipFMC. We were honored to be the exclusive provider of subsea equipment in the country.

And now what we added Suriname, in Suriname where we received the first project award for their offshore production, which was an iEPCI, an integrated project for our company. And we continue to see other areas in South America looking like future opportunities as well.

So if we kind of draw the triangle a little more broadly, you start to encompass actually quite a few additional unique opportunities as well. Now, if we shift kind of from the triangle to the polygon or whatever angle we want to go, you have to talk about East Africa. I mean, East Africa is important. This is gas.

Gas is important for the future of the global economy and for the world. And East Africa has significant gas reserves and particularly in Mozambique in particular that as I mentioned in my prepared remarks, we have been and will continue to be very important to our company where we've been the first mover in the country and where we've had a significant presence and that we believe will have a growing presence going forward.

You have the Eastern Mediterranean, which is also gas, very prolific gas reserves, where we're operating projects today, but we think will continue to be an area of investment going forward.

You have the southern part, if you will, of Africa, Southwest Africa, which is Namibia in the Orange Basin. I actually think one of the major operators had comments earlier today, and he is much better positioned to comment on it than I am. But I think they were very positive and constructive. And I can just say, from our perspective, we're involved in multiple pre-FEED and FEED studies and actively in commercial negotiations today on projects in Namibia.

Beyond that, I would look towards Asia Pacific, where in Indonesia, massive gas reserves. We've seen success by quite a bit of success by one of the international operators and we believe they will continue to invest in others, in Indonesia, in the gas reserves.

And I think I'll stop there only because I think it just shows the robustness both in the traditional basins or the traditional Golden Triangle, but now well beyond that. And it's what gets us so excited and keeps us so motivated to continue to do what we do.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Great. Thanks for the fulsome answer there. Really appreciate it. Doug, my follow-up is regarding Surface. You announced some business transformation, some self-help activities, I think concentrated in North America.

I was wondering if you could address maybe some near term changes in the competitive dynamics with Cactus planning to enter the Middle East surface market through the transaction with Baker. Talk to us about they're pretty capable player looking at what they've done in North America. But how does that change? Does that impact FTI in any way as you think about that transaction?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure. Let me first step back a little bit on the transformation because it's really important. As I said, this has been going on for three years. This isn't a response to any kind of current events, if you will. We recognize that in order to have a sustainable high returns business in North America, we needed to change our approach.

And it needed to be very focused, and we needed to really bring the knowledge and the technology that we have in the company, particularly in the area of automation and control. And that's what we're doing, and we're doing it in a very focused effort. Hence, the reason we've reduced our footprint by over 50%, and it's important while increasing cash flow. So I think clearly, it was the right thing to do.

As we look outside of North America, we are also using a similar playbook outside of North America. So it's not exclusive to North America. And it's important that there too, we really identify where is it that we can create the greatest value and gain our portion of the economic value we create for our clients. And we're doing that by looking at the footprint and the products and services and, again, increasing the amount of digital offerings in our business outside of North America for Surface Technologies.

Speaking specifically to The Middle East and the recent transactions, look, this is a very high-end portion of our Surface Technologies business. At an investor conference that we had a few years ago, we actually did a side by side of a surface tree for the unconventionals or for the US versus a surface tree for the Middle East. And it's about 10 times, 10 times the degree of difficulty, 10 times the cost, 10 times the complexity.

There is no translation between the North American market and the Middle East market. There is no translation. It is a very different market. And look, I think everybody knows that and acknowledges that. But it's important that, that is emphasized.

So what we have seen historically is a very focused group of companies, two to maximum three of us, who work on that very high end. So in this transaction, you're just swapping one for the other, but with a massive learning curve associated with it.

So we look forward to continuing to have a very focused market structure in the Middle East. And we will continue to invest both in technology, where we are the leader in technology and qualified technology in the Middle East, which is important and very much recognized and rewarded by our clients.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Thanks, Doug.

Operator

Sebastian Erskine, Rothschild.

Sebastian Erskine - *Rothschild & Co - Analyst*

Yes. Hi, good morning, Doug. Good morning, Alf. Thanks for taking my questions. I'd like to start on Brazil and you kind of touched on it in a bit of detail there on the response to Arun. I mean, historically with some of the Brazilian tenders, you kind of haven't been happy with the kind of non-integrated nature of those scopes' kind of SURF only or SPS only. It didn't make sense to kind of pull vessels away from integrated work to do that.

We're obviously seeing kind of a top two come out that looks like it's gone to all these quite a low bid and there are some other activities. How do you view Brazil specifically evolving? You've got a great relationship with Petrobras, but just specifically on the prospects, how many of those realistically would you hope to convert?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure. And good afternoon. The Brazilian market has its own dynamic. It's incredibly important. We have had a very long-term relationship with Petrobras. We have been recognized and continue to be recognized as their number one subsea supplier, something we're very proud of, and it's reflected in our installed base and a very significant Subsea Services business that we have in Brazil.

In terms of the construct of their awards, actually, they've done integrated awards. And the one and only integrated award they did, not surprisingly, is the only integrated company, went to TechnipFMC, and that was the HISEP project. Petrobras continues to invest in technology and innovation. They always have, and we've always been right there beside them, and we're proud of that, and we will continue to do that. The most recent example of that, as I pointed out, is some work we're doing on all electric to retrofit hydraulic equipment that exists on the seafloor today, which is completely, completely game changing.

So, look, an important relationship, very much focused on technology. In terms of their opportunity set, it remains robust, and we remain selective. Beyond the Petrobras portfolio of opportunities in Brazil, we must remember there are many other operators now in Brazil. We have done iEPCI projects for some smaller independents and we are executing iEPCI projects for some of the largest international companies in the world today.

So the market remains a mix of integrated projects, which we benefit from and non-integrated projects where we remain selective and a lot of focus on technology and technology development. We're proud to be considered to be a trusted partner and the number one supplier to Petrobras.

Sebastian Erskine - *Rothschild & Co - Analyst*

Appreciate that, Doug. And just a quick follow-up on the opportunities list. I noticed there could be a couple in changes in scope value on Vår Energi, kind of post the exclusive agreement with them and you. And then on Eni is kind of Coral Norte.

Is that clearly like a tree count increase or anything specific you can flag there? And kind of going forward, is this kind of typical in terms of a developer might look to change kind of quite like notice a scope and hence that increase in the value of project?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

No. And a good observation and an important question. And for a while there, we were seeing project sizes as they move towards FID decrease. And that was either because operators decided to do them in phases or just the reservoirs themselves did not, let's say, pan out to be as prolific as they had originally anticipated.

I think what you're seeing here is the quality of the reservoirs that are offshore, the increased technology that they're able to use in terms of evaluation is giving them greater certainty as they move into the field development phase and the FID phase of projects. So in one case, and I don't want to be specific because I would leave that to the client. But in one case, they've actually added an additional reservoir to be tied in with the other reservoirs, which increased the scope of the project. And in other cases, it's just the again, the increased confidence in the quality of the reservoir.

And look, underlying all of that, I do believe that there is an understanding that the market dynamic in subsea has changed dramatically. It's very concentrated and they have a strong desire to secure our resources, given our unique capability in doing integrated projects and our configured to order Subsea 2.0.

Sebastian Erskine - *Rothschild & Co - Analyst*

Appreciate that. Thanks very much for taking the time. And congrats on a strong quarter. Thank you.

Operator

Victoria McCulloch, RBC.

Victoria McCulloch - *RBC Capital Markets Inc - Analyst*

Hi. Thanks very much for taking questions this morning. So just firstly, tends well to carry on. Vår Energi's CEO commented about cost depreciation that he's seeing in the market. Obviously, that doesn't appear to be aligned particularly with the upsizing of the scope that you mentioned for their projects in Norway.

Now, I appreciate you're not responsible for the entirety of the project, so it's not maybe this is, you know, out with your scope, but maybe you that helps us to kind of get your view on where pricing is in the market, and you talked to the competitive environment, but your views on that would be interesting. Thanks.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure, Victoria. And thank you for the question. Keep in mind, most over 80% of our business is direct awarded to our company. So there is no pricing dynamic or competitive dynamic in that portion of -- the significant portion of our business. So that's what makes us just absolutely unique and something we're very proud of and something we work very hard to earn from our clients every single day and almost always results in direct -- repeat direct awards. So that changes that whole dynamic that you were describing, which I think would be more applicable to other parts of the industry or other companies in other parts of the industry.

In regard to the actual opportunity that you're referencing, look, our focus is on shortening the cycle time. So this isn't about unit cost. This isn't about a pricing. This is about shortening the cycle time. So one of the successes we've had with Vår and predecessor companies that we had this a similar relationship with was allowing them to achieve first oil far sooner than they would by working with anyone else. And by accelerating time to first oil, the overall project returns are improved significantly.

So I think you have to separate the two subjects. One is a unit cost inflation, but more importantly, what is the project return? And focusing on the project returns is where we deliver value to our customers. That's why we get 80% direct awards. That's why they enter into these proprietary exclusive agreements with us. That's why they value us and give us repeat awards. So we're going to continue to focus on shortening the cycle time and improving their project economics.

What's happening from the rest of their supply chain, I can't comment, but that's our role. We take it very seriously. This isn't a pricing game. This isn't a supply and demand game. We are not an asset company. We think very differently. We're a technology company, and we're focused on improving their project returns while we share a portion of the economic value we create.

Victoria McCulloch - *RBC Capital Markets Inc - Analyst*

Thanks. That's really helpful, Doug. And I think that aligns with sort of maybe the comments being misconstrued in that it wasn't necessarily deflationary on the sort of Subsea side of pricing. That's interesting to hear that you're aligning with my views on that one.

And if I can ask a follow-up, not really connected, but interesting comments on the hybrid flexible pipe. Ex-Brazil, where would this be most like, what markets would be this must be attractive to sell into?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Good question. We are still kind of exploring that and considering that ourselves. But you could come to the conclusion that it could not only be applicable in all existing markets for flexible pipe but could increase the total market for flexible pipe. So what do I mean by that?

Brazil has clearly been a key market and a key driver for flexible pipe technology. And as a matter of fact, Petrobras has built an entire ecosystem, including vessels, onshore support, investment in products to make the hybrid flexible pipe or the flexible pipe market interesting in many, many ways.

And they benefited from this because one, you know, very interesting attribute of flexible pipe is you can reuse it. You can use it for a while in one field, move it to another field. You can't do that with a rigid pipe. A rigid pipe, by definition, only has X length and can only be used in one application. So it's much better over the long term to be used in a project.

Flexible pipe is used globally. It's used in many of the -- when I went around the world earlier talking about all of the existing basins and the activity in some of the new basins, I can tell you our architecture and part of the unique opportunity and differentiation that we bring, including shortening the cycle time, is because of flexible pipe. So yeah, it's actually quite broad.

Now, why do I say hybrid flexible pipe could be used anywhere where conventional flexible pipe could be used? Because it actually has a very positive attribute, which I, hinted to or, I guess, directly addressed in my script, which is weight. And the weight factors into everything. It factors into the manufacturing cost, the transportation cost, most importantly, into the cost of installation.

The heavier, the bigger the vessel, the bigger the crane, the more costly the vessel is. We don't think that way, right? We're trying to drive reduction in cycle time and improved economics for our customers. I'm not trying to sell bigger boats. So we're out there really being disrupted to the boat industry and to the vessel industry by thinking about it as what can we do to make this product lighter, simpler, could be installed with a much lower cost vessel, as an example.

And in addition to that, the lack of the durability of the product and the design life of the product will be greater than conventional flexible pipe. So if you think about all of that, you could say, well, why couldn't it be used anywhere, and why wouldn't it be used anywhere, and why wouldn't it soon start to displace some rigid pipe applications? And I think those are all viable challenges and opportunities for us and why we have invested so much and continue to be strong believers that this will truly be a disruptive technology.

Victoria McCulloch - *RBC Capital Markets Inc - Analyst*

Thanks very much. Really appreciate the color you provided.

Operator

Saurabh Pant, Bank of America.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Hi. Good morning, Doug.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Good morning.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Doug, I think at the top of the Q&A, I heard a short and sweet yes to Dave's question on $10 billion for Subsea 2026 potential. So that was fantastic. And maybe I'll ask another question on life beyond '25.

But this time, maybe on the margin front. I know it's hard to guide numerically. But, Doug, how should we think about where Subsea margins can go? Because there are a ton of moving pieces, Subsea 2.0. Just more integrated work, more backlogs roll off. Just maybe help us think about potential margins and what are the moving pieces for us there, please.

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure. So for all the reasons that you stated, in addition to a very robust backlog that we continue to grow and the new inbound opportunities that we talked about are continued to be accretive to the backlog margins, we would anticipate further growth in our EBITDA margin for Subsea in 2026.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Right. That's fantastic. That makes a ton of sense. And then maybe one follow-up question on what you said in your prepared remarks, Doug, on the all-electric side of things, especially the opportunity to replace hydraulics on current projects. That sounds like a pretty big opportunity over a longer duration of time. Maybe just talk to that, Doug. How big could that opportunity be? How quickly could that manifest? And in what regions?

Douglas Pferdehirt - *TechnipFMC PLC - Chairman of the Board, Chief Executive Officer*

Sure. So let me expand on that just a little bit. In my prepared remarks, I talked about all electric not being a one size fits all. So like everything else, when we looked at the development, we wanted to have something that was scalable and configurable that we could apply on across multiple different purposes and solutions to help meet our customers' needs.

So the initial focus was on new oil and gas production. And then we very quickly realized that probably the biggest a bigger market was going to be the carbon capture and storage market, which is where we've then focused on, which was our CO2.0 tree, again, configurable and designed for the CO2 application. And it led to the award from BP for the Northern Endurance Partnership, which is the first all-electric subsea field development.

And why is electric important there? Because the emitters are onshore, so they're going to capture the CO2 onshore, but then it needs to be transferred 145 kilometers offshore to be stored safely and permanently in a subsea structure. So you can only get that done by using an all-electric solution because being able to control hydraulics over 145 kilometers would not be economically viable.

And now what we're working on, and I'm not going to say too much because this is an active R&D program for us and one that we're extremely excited about, is how do we address the existing market that's out there today, that huge installed base that I talk about that we have well over 50% of. But how do we address 100% of that market, meaning not only our own equipment, and go out and find a way to retrofit?

They're all hydraulics. Everything down there is hydraulics today and hydraulically operated. And then hydraulics have, you know, over time, they do deteriorate, and it could lead to a situation where valves aren't operating appropriately or to design, which typically then results in the well either being shut in and abandoned or the well-being shut in, the tree being recovered from the seafloor brought back to the onshore facility, retrofitted or I shouldn't say retrofitted, but repaired and then taken back offshore and reinstalled. That's a 6-, 9-, 12-, 15-month process. So in other words, you've shut in production for quite an extended period of time.

As opposed to let let's just play make believe for a moment. If there was a company that was an industry leader in robotics, an industry leader in automation and control, and an industry leader in all electric, if we could find a way to send a robot down there to actually retrofit an existing tree and remove the hydraulic controls and put on electric actuation whilst not having to stop production for any more than the short period of time, you know, a couple of days that that process may take. That's a game changer. So you bet. We're very excited.

Saurabh Pant - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Right. We need to start flying by wire subsea, Doug. (laughter) That makes a ton of sense. Thank you, Doug. I'll turn it back.

Operator

And I will now turn the call back over to Matt Seinsheimer for any closing comments.

Matthew Seinsheimer - *TechnipFMC PLC - Vice President - Investor Relations*

This concludes our conference call. A replay of the call will be available on our website beginning at approximately 3:00 PM New York time today.

If you have any further questions, please feel free to contact the Investor Relations team. Thank you for joining us. Regina, you may end the call.

Operator

This will conclude today's call. Thank you all for joining. You may now disconnect.