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PRESENTATION

Operator

Hello, and welcome to the TechnipFMC First Quarter 2018 Earnings Conference Call. (Operator Instructions) Thank you.

At this time, I would like to turn today's call over to your host, Mr. Matt Seinsheimer. Please go ahead, Mr. Seinsheimer.

Matt Seinsheimer - *TechnipFMC plc - VP of Investor Relations*

Good afternoon, and welcome to TechnipFMC's First Quarter 2018 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 will now turn the call over to Doug Pferdehirt, TechnipFMC's Chief Executive Officer.

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

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

Our financial results in the quarter again demonstrated solid operational execution and the benefits of merger synergies. Total Company revenue was $3.1 billion in the first quarter, with the anticipated year-over-year declines in Subsea and Onshore/Offshore, partially offset by growth in Surface Technologies. Total Company adjusted EBITDA was $387 million, with margin unchanged to 12.4%. We recorded our highest level of quarterly inbound orders since the formation of TechnipFMC. Total Company orders were $3.5 billion, with particular strength in Onshore/Offshore. Total Company backlog grew sequentially to $14 billion at quarter-end.

Driving value through Subsea integration was the fundamental reason behind the creation of TechnipFMC. Today, we remain the only Company that could execute a truly integrated Subsea project delivered on the seabed. In the first quarter, we demonstrated further progress in validating this unique business model by securing 3 additional integrated EPCI or iEPCI™ awards.

We have talked previously about a growing in trend towards independents and new entrants undertaking Subsea developments. In March, we announced our largest iEPCI™ award to date for Energean's Karish and Tanin development in the Mediterranean Sea. The size and breadth of scope make this a flagship project for TechnipFMC. It is also a direct award and another major contract win for us. We have worked exclusively and collaboratively with Energean from early concept and integrated FEED through to the integrated EPCI direct award.

It is also the first iEPCI™ contract that fully integrates the entire Subsea scope with that of the host production facility, leveraging the unique capabilities we have across our portfolio. And we will deliver a cost-effective solution faster than anyone could have done under a traditional contracting model.

Success also creates opportunities. In the first quarter, we announced the award of in iEPCI™ from Shell for the Gumusut development in Malaysia. This award marks our second repeat customer and is the industry's first iEPCI™ award in the Asia Pacific region.

Our new business model is now being implemented in the North Sea, Gulf of Mexico, Europe, Africa and Asia Pacific regions. We can also demonstrate our unique integrated model in the brownfield market due to the integration of Subsea processing and topside controls. We have been awarded an iEPCI™ project for the Who Dat field in the Gulf of Mexico, a contract that builds on an alliance relationship with LLOG that we have shared for more than a decade. Who Dat originally achieved first production in 2011. As the field has matured, reservoir pressures have declined, suppressing the recovery potential of the field. With the addition of our multiphase pump, the third such award for our own solution and the first for us in the Gulf of Mexico, we can boost production and increase recovery rates, providing an uplift to overall project returns. As an iEPCI™ offering, we will deliver and install the complete Subsea package as well as the control equipment on the topside. In total, we have now secured 9 iEPCI™ awards. We see further validation of the new business model through our growing volume of integrated FEED activity, which serves as a leading indicator of future integrated project awards. Many of these projects are exclusive to TechnipFMC and are now progressing towards final investment decision. All this gives us confidence that as much as 25% of our Subsea inbound orders will come from iEPCI™ in 2018.

Subsea order inbound in the first quarter of $1.2 billion again exceeded revenues in the quarter. And on a rolling 12-month basis, we have achieved a Subsea book-to bill above 1. Importantly, the momentum in FEED and tendering activity for both traditional and iEPCI™ projects is supported by the considerable improvement in deepwater project economics and operator cash flows. The Subsea opportunity list reflects our view of the full Subsea value stream and highlights a significant market opportunity set for us given the breadth of our product, service and commercial offering. We expect several major projects to move forward in the coming quarters and remain confident that we will again achieve year-over-year growth in our Subsea inbound orders.

Now turning to Onshore/Offshore. We reported solid inbound activity for the quarter. Onshore orders reflect work across multiple downstream markets, including gas processing, petrochemicals and refining. Our process technologies business also benefited from multiple orders. Offshore work was driven primarily by the FPSO award for Karish and Tanin, a major component of this wholly integrated EPCI contract.

FEED activity strengthened in the period. While these revenues are typically smaller in size, this work can lead to significant project activity in the future periods. This early engagement strategy also serves to reduce project execution risk. For the quarter, Onshore/Offshore achieved total inbound of $1.8 billion. These awards were broadly split between Onshore and Offshore markets and reflect diversity by both geography and end market.

In early April, we announced the award of a FEED contract for the FPSO unit on the BP Tortue field development, a major LNG project located Offshore West Africa. TechnipFMC will initially work on defining the technology and equipment scope, and the agreement with BP provides us the opportunity to transition the FEED to an EPCI contract at a later stage. This represents a major inbound opportunity for TechnipFMC in the coming quarters.

As we discussed on our Q4 earnings call, we continue to see opportunities developing in the LNG market. LNG is one of the fastest-growing markets in the oil and gas sector. To satisfy increasing customer demand, a few LNG projects will likely be sanctioned over the next 3 years and many more beyond that. We have an extensive list of LNG references that date back to the world's first LNG project in the 1960s. We have executed many of the world's largest LNG developments as well as many midscale LNG plants. We are the pioneer in floating LNG, having successfully delivered the first FLNG, and we are now commissioning the largest-ever FLNG. And we have developed significant expertise in applying modularization to large-scale projects and developing project management solutions for megaprojects in remote locations. In fact, we have developed over 20% of global installed capacity, some 90 million tons of annualized production. LNG is clearly a core competency of TechnipFMC. We are present and capable in all regions with large gas reserve, leaving as well positioned to capitalize on the improved market dynamics for gas monetization.

Now let me update you on some of the technology investments we have made that will further differentiate our offering and provide future growth opportunities for our Company. We announced in March we have taken minority ownership in Magma Global, a leading provider of risers, jumpers and downlines for Subsea exploration and production. Through our collaboration with Magma, we will accelerate our delivery of the next generation of hybrid flexible pipe. This new product is part of our Subsea 2.0 offering and upon commercial introduction will complete the rollout of this unique suite of products. Much like the other 2.0 products we have in our portfolio today, we see the potential for significant reductions in both schedule and weight, driven by the use of innovative materials and increased manufacturing automation.

Composites also provide superior corrosion tolerance in applications that involve the high natural gas content such as the pre-salt discoveries in Brazil. Customer acceptance of Subsea 2.0 has been very positive. Our 2.0 components have been incorporated in more than 50% of new FEED studies this year, and several of these studies have included the entire suite of products. We are very pleased with this level of interest as it speaks to the compelling benefits of our 2.0 offering.

But our technology investments extend beyond Subsea. In late March, we also announced the acquisition of a unique chemicals technology used to produce Epicerol, a chemical intermediate used in the manufacturing of epoxy resins found in coatings, composites and adhesive applications across various industries. TechnipFMC will license this technology, provide services related to project design and engineering and supply the associated proprietary equipment. More importantly, this investment, much like Magma and Subsea 2.0, is representative of a broader strategy focused on further expanding and differentiating our portfolio of value-added technologies.

In closing, the first quarter marked another period of solid operational performance, but more importantly, we generated robust inbound orders that resulted in a sequential increase in project backlog. Market acceptance of our unique integrated model, iEPCI™, continues to demonstrate our clear leadership as evidenced by the 3 new integrated projects awarded in the quarter. Momentum is also building in Onshore/Offshore activity, enabling us to selectively rebuild backlog as we continue to successfully execute and deliver on Yamal LNG, the largest project ever undertaken by our Company. And we continue to pursue growth opportunities through new technologies that we are confident will strengthen our leadership position and create new market opportunities.

I will now turn the call over to Maryann.

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

Thanks, Doug. Overall, we are pleased with the operational performance in the first quarter. Total Company adjusted EBITDA was $387 million in the quarter and compares to $420 million in the prior year quarter. Adjusted EBITDA margin was unchanged at 12.4% despite a year-over-year revenue decline of 8%. Good project execution and the benefits of merger and other cost-saving initiatives offset the otherwise negative effects of reduced sales volume.

Subsea delivered solid first quarter results in the face of revenue declines and lower utilization of our fleet and manufacturing facilities. Onshore/Offshore delivered robust performance, with strong project execution across much of the project portfolio. And in Surface Technologies, higher activity levels in North America were the primary driver of the year-over-year improvements, somewhat muted by transitory issues. However, the sequential performance versus the fourth quarter result was negatively impacted by project award deferrals and lower-priced backlog in our international market.

Adjusted diluted earnings per share from continuing operations in the quarter were $0.28 when excluding after-tax charges and credit of $0.08 per diluted share. This compares to the prior year quarter of $0.26 per share on an adjusted basis when excluding after-tax charges and credit of $0.30 per diluted share. Charges and credits in the period totaled $48 million. We have provided you with schedules that accompany our release that give you greater clarity on the details of these items. The effective tax rate for the quarter was 26.9% when excluding the effects of discrete items. Strong results in jurisdictions with higher tax rates are expected to keep our full year tax rate within the targeted range of 28% to 32%.

Turning now to more detail on the segment highlights. Subsea EBITDA margins of 14.6% were down 276 basis points against the prior year quarter, impacted by a 14% decline in the revenues, lower vessel utilization, somewhat offset by cost-reduction initiatives. While vessel utilization is typically lower in the first quarter of the year due to seasonal factors, the 60% utilization rate for the first quarter was down from the 68% level achieved in the prior year. Inbound orders were $1.2 billion in the quarter. Subsea backlog now stands at $6.1 billion. Importantly, the backlog schedule in our presentation deck illustrates that we now have more than 90% coverage of revenue for the midpoint of our 2018 guidance when including first quarter results and the anticipated revenue from Subsea services. This is further support to our full year revenue guidance.

Onshore/Offshore revenue declined 11% versus the prior year quarter as we progressed towards completion on major projects, including Yamal LNG. Notably, revenue from project activity beyond Yamal increased significantly year-over-year, driven by higher activity levels related to several large projects, including Prelude FLNG, Martin Linge and Jebel Ali as well as work related to the activity ramp on Coral FLNG.

While year-over-year revenue comparisons for Yamal LNG will remain a headwind over the course of 2018, the project will still be the most significant contributor to Onshore/Offshore in the year. We expect revenue from Yamal to continue through 2020 as we progress towards final completion of the project. Adjusted EBITDA margins of 13.7% were up more than 500 basis points versus the prior year quarter despite the revenue decline, driven in large part by continued solid execution on several key projects. We are pleased with the broad-based strength of the inbound for Onshore/Offshore, both by geography and end market. Orders grew to $1.8 billion in the quarter.

I will also highlight that our previously announced award for the Bapco Sitra refinery expansion in Bahrain was booked in the quarter. Inbound related to this project was just over $100 million, a small portion of economic interest. We have a 36% ownership taken in the project joint venture, which is a minority position and, therefore, do not consolidate within our financial statement. However, this project holds significant economic value for TechnipFMC. Onshore/Offshore backlog now stands at $7.5 billion. We now have sufficient backlog in hand to meet our full year revenue guidance of $5.3 billion to $5.7 billion.

Moving to Surface Technologies. Revenue increased by 50% year-over-year, largely driven by the significant increase in North American activity that drove strong demand for hydraulic fracturing, wellhead and flow metering equipment. International revenues also increased versus the prior year quarter, although at a more moderate pace. Adjusted EBITDA margins of 13.5% declined 96 basis points versus the prior year quarter. Despite softer-than-anticipated margin performance in our North American business, we expect further activity improvements over the remainder of the year. Additionally, we are experiencing increased demand for our integrated pad offering which services the shale market. Outside of North America, increased orders and targeted business investment should benefit near-term results. While we remain cautious on the potential impact of pricing in some international markets, we are confident that we can meet our full year objective for the segment as a whole. Backlog for Surface Technologies ended the quarter at $410 million.

Turning to cash flow. I wanted to highlight several items that frame our results in the quarter. Cash flow from operations was a negative $202 million. The decline was primarily a function of working capital outflows, driven by our project-related activity. Let me point out another change associated with revenue recognition. A change now exists in the presentation of the trade receivables, contract assets and contract liabilities. Under the new revenue recognition standard, we now recognize receivables when we have unconditional right to payment. Previously, we reported certain billed amounts on a net basis within contract assets and contract liabilities. Going forward, we will provide you with the changes in the quarterly filings so you can see what the balances would have been under prior recognition methods.

In the first quarter, contract liabilities would have been $3.4 billion under the prior standard as compared with the $3.9 billion we reported. Contract assets would have been $1.8 billion versus the $1.5 billion reported. The change to note here is that trade receivables increased $960 million in the quarter, $846 million of which was due to the recognition standard. When looking at net contract liability position going forward, this change should be included. Beyond the operating line, capital expenditures were $53 million in the quarter. There were also several discretionary items impacting the period: First, $120 million reduction in debt outstanding, much of which was related to the reduction in the use of our commercial paper for short-term financing; second, $93 million related to share repurchase activity, bringing our total repurchases since inception of the plan in 2017 to $151 million; we remain committed to completing the $500 million authorization by the end of this year; lastly, $62 million related to the completion of acquisitions, which included the transaction with Island Offshore that is intended to strengthen our services growth platform. As a reminder, we're forming a new company called TechnipFMC Island Offshore Subsea, or TIOS. This will focus on vessel-based well intervention services. The combination expands our engineering, design and execution capabilities and accelerates our transition from a light well intervention stack supplier to an integrated services provider. We have worked with Island Offshore for more than 10 years, and together, we have successfully performed intervention services on more than 500 Subsea wells. Over the next 5 years, we believe the market for these services will double in size.

In total, these discretionary spending items were $275 million in the period. Importantly, they are supported by very a strong balance sheet, and our net cash balance stood at $2.4 billion at quarter-end.

Let me update you on the financial implications of the new revenue recognition standard. We have adopted the new standard using the modified retrospective method. Under this method, no restatements are made to prior-period results. Revenue from the period totaling $115 million will largely be recognized in future periods. Since there is no change in the timing of project costs and expenses, most of the revenue will be realized as pretax income. The majority of this income statement effect will occur in our Onshore/Offshore segment over the course of 2018. Additionally, a net favorable adjustment of approximately $712 million was made to project backlog. Under the new guidelines, there are additional revenues related to the future reimbursable work that are now included in backlog, reflecting a change in the timing of order recognition. This work was not recorded in our inbound activity during the period. The majority of this adjustment impacted our Onshore/Offshore segment. I'd like to also note that the adjustment was not related to the Yamal project. Given the future impact from the new revenue recognition standard as well as the operating strength reported in our first quarter results, we are increasing 2018 margin guidance for the Onshore/Offshore segment. We now anticipate full year EBITDA margin to be at least 11.5%, up from prior guidance of at least 10.5%. While our revenue guidance is unchanged at between $5.3 billion to $5.7 billion, we now expect full year results to be near the high end of this range.

In summary, our first quarter earnings underpin our confidence in the full year outlook for 2018. We have increased our guidance for Onshore/Offshore, driven in part by the strong results in the quarter. We remain confident in our ability to deliver EBITDA margin of at least 14% in Subsea. And we continue to expect Surface Technologies EBITDA margin of at least 17.5% despite the softer first quarter performance. Total Company inbound orders were strong at $3.5 billion, with orders exceeding growth in all segments. We are encouraged by growing FEED activity and project tendering, which bodes well for future project awards across our major business segments.

Three iEPCI™ awards during the quarter speak to our leadership and success in developing the integrated business model. Our extensive involvement on Energean's Karish and Tanin development clearly illustrate the shear breadth of our integration capabilities. We are optimistic about the improved outlook for LNG, particularly given our Tier 1 status for Onshore projects, and clear market leadership in floating LNG. And we continue to pursue value-enhancing investment opportunities that strengthen our market positions, extend our technology leadership and bolsters our growth potential.

Operator, you may now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Michael Alsford with Citi.

Michael Alsford - *Citigroup Inc, Research Division - Director*

I've got one on the cash flow, if I could, please. Just to come back to Maryann's comments on the working capital and the change in accounting rules you're adopting. Could you maybe give some guidance as to what you expect the working capital outflow will be for 2018? Obviously, there's been a big outflow in 1Q, and how that would relate to obviously the performance you've done in 2017? That'd be my first question.

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

Sure, Michael. Thank you. A couple of things, yes, working capital, about a $450 million change in the quarter. In part, there's about $50 million in that working capital swing that's associated with FX, largely from change in the Euro. As we talked about in a prior quarter, we had estimated our working capital change to be about half of what we experienced in 2017. And obviously, there's a piece of that, pretty big piece of it that happened in the first quarter. As you can imagine, working capital is clearly one of the most challenging things to forecast, but we do quite a bit of work in looking at project expectation, completion as we look at that project-by-project. On a full year basis, I would still submit that our working capital range might, might creep up a bit from that. But we're still pretty confident depending on the timing of when projects come in and which projects they are, which is probably the biggest challenge to forecasting that working capital piece. But we remain pretty confident that within a reasonable range there, our working capital flows will be lower than we've seen in 2017.

Michael Alsford - *Citigroup Inc, Research Division - Director*

And let me follow up on the kind of momentum in the pipeline of awards. I'd ask just a broader question, obviously the oil prices have rallied quite a lot since the beginning of the year. I'm just wondering whether you've got a sense as to whether your customers are changing behavior in terms of the way they think about executing and, I guess, targeting new project sanctions?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Michael, thank you. I'll take that one. We saw a change in behavior actually occur last year, and that change of behavior was driven by our customers' recognition and acceptance that we had created a new and unique commercial model in developing technologies through platform of technologies that could sustainably and structurally lower the cost base for Subsea projects. So when you couple that with a recovery, as you pointed out in the commodity price and increased cash flow for our clients, it just further improves and provides further confidence in their ability to move forward and sanction projects. But I think it's important to mention both of those attributes. It's not just about the oil price because as we know the oil price will fluctuate over time. TechnipFMC was created to drive real, structural and sustainable change and improve project economics. Our introduction in late last year of our Subsea 2.0 platform and the broad market acceptance of this new product platform, where over 50% of our new FEED studies now include this product platform, gives us great confidence that our customers see that we're providing a real solution.

Operator

Your next question comes from the line of Jud Bailey with Wells Fargo.

Jud Bailey - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Question just maybe for you, Doug, kind of big picture. There's been a lot of positive commentary in the press on a lot of projects moving forward this year, FIDs, a lot of momentum towards additional bid activity and you guys alluded to that. We're halfway through May, and candidly, some of the award flow has been a little slower than I would have expected, not necessarily for FMC, but just kind of across the industry. I'd be curious to get your perspective on, is it been a little slower in terms of actual awards from where you sit? And are we looking at kind of a bigger increase in the second half of the year? And do you think we'll have a pretty positive momentum going into '19 as you think about kind of award cadence for the rest of the year and kind of what's going on?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Thank you, Jud. Yes, thank you, Jud. I guess I would have to say if we just look at the sheer results, as pointed out, this has been a record quarter for TechnipFMC. We believe that we're capturing a significant portion of those opportunities. And we're also translating a lot of our integrated FEED work that we've now been doing for over 2 years are now being translated into direct project iEPCI™ awards. The Energean Karish project being a very good way to recognize that, a very good example of that. So it's likely that we'll see a continued improvement in the cadence of project FIDs, but we're actually quite pleased with the 3 iEPCI™ awards that we received, the level of inbound both in our Subsea as well as our Onshore/Offshore business that we secured in the first quarter.

Jud Bailey - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Okay. And my follow-up, maybe for Maryann. Could you maybe give us your thoughts on how to think about the margin kind of progression within Subsea for 2018? Typically, you guys see a little bit of an improvement seasonally from 1Q to 2Q. I'm just trying to think about the annual guidance and just in the context of how you see maybe margin progression over the balance of 2018 within Subsea.

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

Yes, thanks, Jud. Yes, you're right. Normally, Q1, at least it has been for some time, is normally a seasonally softer quarter for us for many reasons. As you know, we really don't give quarterly guidance. But certainly, as we continue to progress down with respect to our revenues, our ability to improve margins in the back half would certainly be a little more challenged. I would say in this way, we are not expecting very much variability in the next couple of quarters. We should be, I would say, fairly range bound as volumes level out. A lot of the good work that we've done with respect to our cost synergies are now flowing through our manufacturing operations. As you know, we've done quite a bit of work there as well. So we're not expecting to see a tremendous amount of variability quarter-by-quarter as we have rightsized our organization.

Operator

Your next question comes from the line of Bill Herbert with Simmons.

Bill Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Maryann, back to free cash flow question. If you could, perhaps recognizing the difficulty with regard to nailing down working capital, what do you think is expected cadence over the course of this year? And then moreover, with regard to, do you expect to be roughly free cash flow neutral or a modest consumer of cash or more than that on average for 2018?

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

Yes, thanks, Bill. So we had a lot of project completion in Q1, and we would expect a bit more in Q2. The back half of the year, as we replenish backlog, is where we would see some of that offset happening, obviously depending on the timing of those project awards, et cetera, in the form of milestone payments and in the form of advance payments as well. So I would say back half should be more positive than the first half. The second part of your question was operational cash flow, do we expect to be a significant consumer or more neutral. I would say, I would answer the question in this way, from an operating cash flow perspective, absent big swings in FX, which obviously are a challenge there, I would expect to be neutral to slightly negative, but certainly not a significant consumer on the operating line. And again, just to reiterate, the timing and the type of projects is the way they come in, obviously plays on our ability to forecast that. But big project completions in the beginning of the year as we've then start new projects should be offsetting as we look at those milestone payments.

Bill Herbert - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. And then secondly, with regard to, I think your prior guidance for Subsea services, which appears to have been maintained for flat revenue year-over-year. We've got Brent approaching $80. I would assume that short-cycle activity in general is picking up pretty strongly. So I'm just curious as to what were your updated guidance for Subsea services? I mean, the importance of that is, of course, is that it's your highest margin subsegment within Subsea, which would I hope drive overall Subsea margins higher as well. Can you comment on that?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Yes, Bill. This is Doug. Thanks for the question. As usual, we don't give specific guidance on subsegment, but we had indicated that we would expect that activity to be relatively in line with 2017. You hit on a very interesting point. I just got back from visiting with a client who clearly is indicating that there will be an increased level of Subsea well intervention, which, as you know, if done via riserless light well intervention can -- we certainly benefit from as the leading provider and the most experienced provider in riserless light well intervention. But also, regardless of the mode of intervention, riserless or riser-based, it requires the removal of the tree, the reinstallation of the tree. And typically, while the wellbore maintenance is being done, the tree is actually returned to shore for inspection, maintenance and repair. So I think you're right to expect that there is going to be some increased level of activity both in terms of riserless well intervention activity as well as an inspection, maintenance and repair activity, which is very important, a very important component for our Company. Let's wait to see how that plays out. If that plays out towards the latter half of 2018 or more pushed into the beginning of 2019, but I would agree with you, there is a pent-up demand. We are well prepared and well positioned to take -- to provide that support for our client.

Operator

Your next question comes from the line of Gregory Brown with Crédit Suisse.

Greg Brown - *Crédit Suisse AG, Research Division - Research Analyst*

It's encouraging to see another multiphase pump sale. Are you seeing any opportunities to deploy that kit within the greenfield market? That's the first question. And then the second question, following up from perhaps what's already been said. You've obviously invested in the Subsea services space over the past few months. Is there anything that you feel you're missing from that tool kit? And do you get the sense that your clients are perhaps increasingly interested in an integrated services type approach and perhaps bundling more of those license field services together?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Short answer to both questions is, yes and yes. Thank you for the question. In regards to greenfield opportunities for multiphase pumps, clearly, there is quite a few studies that we're doing right now and not just for boosting, by the way, also for Subsea processing, something that hasn't been spoken about much in the recent years. And as you know, we're the leader and have done 100% of all Subsea processing, including -- that are inclusive of separation activity that has been done in the industry. So yes, quite a few activities. Now that being said, part of our vision for Subsea is to enable our customers to have a more dynamic Subsea architecture. In other words, instead of necessarily putting all that capital in the front end of the project, which has a significant impact on the overall project economics and FID and the sanctioning of the project, is to be able to spread that over the life of the project. The only way you can do that is by reducing the number of interfaces, making things interchangeable, and quite frankly, making things more simplified by significantly reducing the part count and the interoperability of those components. This is a big engineering challenge. It's one that our Company has been focused on for quite a few years. So we would see potentially, it's designed into a greenfield but maybe we deliver it at a later stage. Why is that important? That keeps us intimately involved with that asset with the 20, 25 year life of the asset, not only in terms of the aftermarket Subsea services, which was your second question, but also in terms of if we want to add capability as the reservoir conditions change, as the geochemistry change, as the reservoir pressure changes, there's things we can do over time and it keeps us intimately engaged with that client. In terms of Subsea services, things that are missing, well, you certainly saw the move that we made that Maryann talked about in her prepared remarks in terms of really strengthening our position in changing, if you will, our status within the RLWI activity. This was very important, and absolutely, it was based around becoming the integrator, from going from being the product supplier, a very important piece of the Subsea well intervention kit, which is the stack or the pressure containing device; but to move from that to being the integrator is absolutely a key role. This is an area, where we will continue to invest. We will continue to look at opportunities to bring in other competencies within our portfolio and expand our range of products and services.

Operator

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

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

So Doug, with the inbound in the quarter, obviously a solid result, what would be your updated thoughts on the cadence of awards for the balance of the year in Subsea? And I thinking about the potential impact to 2019 if we maintain pretty consistent assumptions for book and turn and services. In other words, I'm asking as we're trying to get a better handle on the ability of Subsea inbound to impact the forward year depending on the mix of SPS versus SURF as we go through 2018?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Thank you, Sean. So if we just take the $1.2 billion in the first quarter and we look at it on an annualized run rate, and we have said and remain committed to the expectation that we're going to continue to see an increase. As you know, we saw a 27% increase in 2017 versus 2016, and we indicated we would expect a further increase in '18 over '17. So kind of from a run rate, and it really ties back to the earlier question from Jud. Yes, you would expect that we would be looking for an uptick in the level in the cadence of the inbound orders. And very much to Jud's question, some of that may come from some very large awards that are currently pending and could well be FID and awarded later this year. That being said, where we need to be in terms of the current activity. And as you know, the earlier that we inbound that activity, the greater benefit that it will have on 2019, which is, we're certainly focused on that as well, Sean. So we're doing everything we can to put the very best solutions and unique solutions in front of our clients and give them opportunities to vastly improve their project economics by, in many cases, showing them where we can deliver projects that reduce the schedule significantly, a 36-year greenfield project in 24 months or a 15- to 18-month brownfield opportunity installed, delivered on the seabed and commissioned in just 10 months. So it's getting the project sanctioned, but it's also our ability to, if you will, accelerate and capture that revenue more quickly.

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

Understood. And so as you're looking at these iEPCI™ projects compared to other inbound, how would you characterize the pricing for those types of projects? I'm asking, on the one hand, you're trying to get this model established, and you certainly want to be able to show that you're making good traction. At the same time, in many cases, you're providing the best opportunity for that particular project to get sanctioned for that particular operator. So just curious how you see the puts and takes at this point in the cycle for those types of project dropping into your backlog?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Thank you, Sean. Look, I can assure you there is no introductory pricing. There's no special pricing. There's no buy 1, get 2. This is real, structural savings that we're providing to our client. This isn't about discounting. This isn't about a procurement exercise. This is sitting down with them, understanding the project economics, being engaged very early, setting an economical hurdle rate in which the project will be successful. And our ability to be able to do that through that early engagement and then demonstrate through a unique solution, which greatly simplifies the Subsea architecture by reducing unnecessary interfaces that are required when you split the SPS package from the SURF package, by showing how we can take those away as a single integrated entity and in off -- many times, as indicated earlier, reducing and accelerating the delivery of the project, installed and commissioned on the seabed by 6 to 12 months, that's what drives the project economic. So you're having a very mature conversation around the project economics, not a conversation around discounting.

Operator

Our next question comes from the line of Michael Rae with Redburn.

Michael Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

First is just on raw material input costs. What's the impact of rising steel prices on your business? Is there an impact this year? Or can you pass that through to customers? Or have you kind of bought forward in some way that leaves you protected?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Thank you, Michael. Look, when we're going through the process of tendering the project, we're already going out there and looking at getting some indicative pricing from our supply chain. And as we either become shortlisted or if it's a direct award, as we become more confident that the project's going to move into being sanctioned, we're actually locking in and securing that pricing. We're in communication with the various different suppliers. I think we have quite a diversified group of suppliers and a very high class group of suppliers, but we would not be -- other than our very short-cycle businesses, we would not be seeing any impact to our projects this year.

Michael Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay. That's great. And then just a brief follow-up. At the risk of being a bit pedantic on the Subsea backlog, so I can see reported book-to-bill above 1, but the backlog in Subsea looks like it's actually declined ever so slightly quarter-on-quarter. So has there been any kind of rephasing or a cancellation or anything in there? Why is that happening?

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

Michael, it's Maryann. There are some minor adjustments which don't flow directly through inbound across all of the segments, and they're related to revenue recognition. In addition to that, what you would have is any FX impact. So there are the 2 things that you would -- that we would want to look at, and that -- there was a small minor impact in the Subsea business as a result of those 2. But other than that, nothing else of substance.

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

But certainly no cancellation?

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

Correct, no cancellations. Sorry.

Operator

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

Marc Bianchi - *Cowen and Company, LLC, Research Division - MD*

My first question relates to LNG. You had some optimistic commentary on the opportunity there for TechnipFMC. And if I recall, the project opportunity, or award opportunity for the on/off biz was mentioned at about $5 billion and that did not include any LNG. If I have that right, could you help us think about the opportunity that could come from LNG and perhaps some of the timing?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Great question, Marc. And you are correct, just to be very clear that when we were talking about the $5 billion of opportunities that we were tracking, that was onshore, downstream opportunities, mainly refining petrochemicals and fertilizer. What we've seen, let's say beyond that, is a significant increase in our process technologies portfolio, much of which drove the unannounced orders in the quarter. And we're also seeing a much -- a very strong uptake in our FEED activity, and that really, quite frankly, spans petrochemicals and LNG. So LNG specifically, as you know, it depends upon the project. I mean, there are several projects out there right now that are greenfield projects. But there's also several projects that would be the expansion, if you will, the addition of a train or the addition of maybe 2 trains. So where could they range? They could range -- they're certainly in the billions, but they could range from $3 billion to $10 billion. And as you know, we would likely partner with somebody on those type of a project, so we would not be necessarily realizing the economic benefit of the full value of the contract that we would we doing that along with a partner. But I think, as you're attempting to point out, it would be a substantial upside, and we've had quite a bit of activity both in FEED and also tendering activity going on in LNG.

Marc Bianchi - *Cowen and Company, LLC, Research Division - MD*

Okay. That's helpful color. Maryann, I didn't quite catch if you mentioned this, but the $115 million of change in revenue recognition here, was any of that included in the first quarter? And I guess whether it was or it wasn't, it seems like the increase to margin guidance here is a little bit lower than what I would have expected in the on/off business given that $115 million of benefit, so can you kind of talk to that? And also if there's any thought on kind of the long-term margin profile for on/off given the change in revenue accounting?

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

Sure, Marc. Thank you. So first of all, yes, you're absolutely right. Of the $115 million revenue recognition adjustment in the quarter, the impact was about $33 million revenue and -- or sorry, a total of $36 million, excuse me, $36 million, my fault, $36 million. And that is, we'll report that to you. You'll be able to see through the balance of the year quarter-by-quarter how that $115 million flows through. Second part of your question is we expect most of that to flow through in 2018 and most of that flows through on the Onshore/Offshore segment. As you -- the question that you asked with respect to the guidance there, we had a very strong quarter in Onshore/Offshore by good project execution. We've increased the guidance to account for the portion of that revenue recognition that will come through because it comes through, really, all as pure profitability or EBITDA in the segment. As you know, or at least I tried to comment on the fact that guidance is at least 11.5%. So I'm in no way trying to signal to you that the back half of the year is any different than we projected. Again, these are estimates, and not all of it is Onshore/Offshore. So you should feel very confident about the project performance in Onshore/Offshore and our ability to deliver margins in range of 11.5%. So again, just to answer your first question, $36 million of that revenue is accompanying in the revenue that you see under the new revenue execution guidance.

Operator

Your next question comes from the line of Vlad Sergievskiy with Barclays.

Mick Pickup - *Barclays Bank PLC, Research Division - MD*

It's not Vlad, it's Mick here. A couple question, if I may. Firstly, Doug, just on the collaboration with Magma and the composites, obviously there's been a long debate, and the message for a long time has been the flexibles are just as good. I'm just wondering why now, why you need to go into composites at this point? Is it because of the corrosion resistance and the flexible issues? Or is it they've come of age?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Mick, thank you, an important question. The easy answer is because of flexibles 2.0. This is a new way of thinking. This is a completely change, a completely changed engineering methodology across our Company. We're looking at how do we drive simplification, reduce part count, weight. And when you look at all of that together, it has a profound impact on our operating model, and that's what I think maybe hasn't been fully appreciated. So when we talk about -- people can talk about making things lighter, I guess it's easy to go on a crash diet, but it's just as easy to put your weight back on at the end of the day. We're talking about a fundamental change in our engineering philosophy that has a profound impact on the roof line, on the manufacturing process, on the delivery systems, on the fleet, et cetera. So no, this is a big, big strategic decision for our Company. It has many benefits, one of which, as you point out, is clearly higher corrosion tolerance, and that's important as we continue to develop assets around the world. But it's much bigger than that. And look, I couldn't be more excited. We got with the right partner. We now have an ownership structure and a seat at the table, and we look forward to the future together.

Mick Pickup - *Barclays Bank PLC, Research Division - MD*

Yes, Doug, on to that question, it's about weight reduction, given what the composite manufacturers have been saying for the last several years, why does it actually need an armor on it? Because I think they're pretty confident you don't need the armor in any shape or form. You just go to fully composite.

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Sure. It depends upon the application, right? So if you're just going to do a downline, I would agree. If you're going to do riser, a stiff riser, I would agree. But if you're really trying to look at doing things that are going to require like we're using them, 4 Subsea systems and flowlines, they're going to require the armor. The armors provides a different stress profile across the system. It actually allows you to have a larger bending moment. And by the way, it adds weight. One of the challenges with a composite is that they float. So in some applications you actually want to add weight to the system. So we think, together with Magma Global, we believe strongly that when you put these 2 technologies together, we're going to have something truly unique and differentiated.

Operator

Your next question comes from the line of Chase Mulvehill with Wolfe research.

Chase Mulvehill - *Wolfe Research, LLC - Director & Oil Services Analyst*

I guess kind of coming back to Subsea margins, when you were talking with Jud, you talked about Subsea margins being unchanged over the next few quarters. But if you look out past the next few quarters kind of could you talk to the puts and takes as you see Subsea margins kind of going out over the medium-term?

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

Sure, thanks, Chase. It's a bit early for us to be forecasting margin sort of beyond 2018. But let me try to address your question in terms of the things I think the way you asked in terms of the puts and takes. Obviously, volume will be an important piece for us. So the timing in which we receive all of the inbound that Doug talked about, you've seen the list of Subsea opportunities, quite robust, those that are iEPCI™ as well. So timing of the projects. And I'll say, to the extent that it isn't an iEPCI™ project, whether it's equipment or whether it is SURF and how quickly we can turn that into revenue as one variable, so timing would be important. The second one there, obviously, is our fleet utilization. And so that obviously has a cost component element to it. So the sooner we can get our fleet back to work, obviously, with respect to installations and iEPCI™, that will be another positive variable. We've talked a lot about over our last couple of calls some other cost elements, that being our ability to reduce our overall manufacturing cost or the footprint without fundamentally reducing the throughput. That comes through product optimization, the Lean. All of the work that Subsea 2.0 does, we can get it through our facility faster. And the benefit that obviously is we can bring a project to first oil that much quicker. So that will clearly have a leveraged benefit as those volumes come through as well. We've been talking about our strategic resources, those being people. And I think what we've tried to communicate is we've got a belief in the recovery of Subsea. And I think, as we demonstrated in '17 and hopeful we'll be able to continue to demonstrate to you in '18, we've held on to some of those strategic resources. And so as we fully utilize those resources, that could also be a lever. The other piece here is this is still a relatively competitive market, as you know. We've talked quite a bit about some project wins and project losses and why we may have walked away from some of those. So the inbound margins on these projects that are not iEPCI™, as Doug commented on, we clearly have a competitive advantage with iEPCI™. But the competitive market could have a lever that would work downward to us. So they're all the things that we are watching very carefully. We're working very diligently. We're looking at cost very carefully. Synergies have helped. As you know, we've got more synergies across the broader organizations. But some of those will obviously impact Subsea this year, and they would all -- could be positive contributors going forward. Just a little too early for us to give any more clarity just giving the moving pieces.

Chase Mulvehill - *Wolfe Research, LLC - Director & Oil Services Analyst*

Understand Maryann. One quick follow-up, could you kind of talk about pricing in SURF and in SPS on the tree side, and maybe talk about if you're seeing kind of a narrowing of the range between the winners and losers? Are there still big outliers there? And so just talk about the environment there on the pricing side?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Thank you for asking. The brief answer is, unfortunately, there are still outliers. There is certain behaviors that are just unpredictable and a little unrecognizable. But there's certainly outliers. I assure you, we will not be an outlier. And the reason why is 50% of our activity is not exposed to competitive tendering. That's because the direct awards from our alliance partners, direct awards from our iEPCI™ projects, as we discussed earlier, as well as the strength of our Subsea services business. That, if you will, reduces our exposure to the competitive market by 50%. But in the remaining market, you do see a tightening, and you see a band, but then you do, on occasion, see the outliers. I expect that to further tighten. And the market is now tightening, if you will, in terms of the pricing range, but there are certain behaviors that are still allowing some to be outliers.

Operator

And your last question today will come from the line of Jean-Luc Romain, CM-CIC Market Solutions.

Jean-Luc Romain - *CM-CIC Market Solutions, Research Division - Analyst*

When looking at Energean comments about the award of projects, it appears that they would pay part of the project once it's producing. Could you tell us more about how much we need to kind of -- your plans to finance that project?

Doug Pferdehirt - *TechnipFMC plc - CEO & Director*

Thank you for the question, Jean-Luc. Look, our position has not changed. We will not use our balance sheet to fund projects. What you see here is a very unique scope. As I pointed out, it's a full Subsea iEPCI™ plus the floating production, storage and offloading facility. So what the structured terms that we use would be no different than you would see in a project of that scope and that composition. So again, I repeat, we're not leveraging the balance sheet. What we're providing is a unique solution. We've been working closely with this customer from the very beginning, from the concept stage and worked in a direct, intimate way. We're very proud to be part of this project and Energean's success as they continue to expand their portfolio.

Operator

And there are no further questions at this time. I would now like to turn the call back to the presenters.

Matt Seinsheimer - *TechnipFMC plc - VP of Investor Relations*

This concludes our First Quarter Conference Call. A replay of our callable be available on our website beginning at approximately 8 p.m. British summertime today. If you have any further questions, please feel free to contact the Investor Relations team. Thank you for joining us. Operator, you may now end the call.

Operator

Thank you to everyone, for attending today. This will conclude today's call, and you may now disconnect.
