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PRESENTATION

Operator

Good morning, and welcome, everyone to the TechnipFMC First Quarter 2022 Earnings Conference Call. (Operator Instructions)

Now I would like to turn the call over to our first presenter for today, Mr. Matt Seinsheimer. You may begin the conference.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

Good morning and good afternoon and welcome to TechnipFMC's First Quarter 2022 Earnings Conference Call. Our news release and financial statements issued yesterday can be found on our website. I would 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. We wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made whether as a result of new information, future events or otherwise.

I will now turn the call over to Doug Pferdehirt, TechnipFMC's Chair and Chief Executive Officer.

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

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

I would like to start off by addressing the war in Ukraine. What the world has witnessed has been truly heartbreaking.

I am extremely proud of the compassion our teams worldwide are showing through their support for refugees. I want to personally recognize our employees in Poland, many of whom have been giving direct support to Ukrainian families by opening up their hearts and homes and providing much-needed shelter and care. As a company, we continue to support their efforts through our global humanitarian fund, providing practical and financial health where it is needed most. The invasion has prompted energy security to become a global priority. We remain committed to helping our clients address the essential needs for hydrocarbons today to ensure the continuity of affordable energy prices while also playing an essential role in the longer-term energy transition.

Now turning to the quarterly results. Total company revenue in the period was $1.6 billion. Total company adjusted EBITDA for the quarter was $154 million, with an adjusted EBITDA margin of 9.9%. Total company inbound orders in the quarter were $2.2 billion, driving sequential growth in backlog to $8.9 billion. Surface Technologies inbound orders were $291 million, with a book-to-bill above 1, driven by strength in the U.S. market. North American sales and profitability grew sequentially, driven by increased drilling and completion activity and an improved pricing environment. Outside of North America, we are investing in new manufacturing capacity to support the strong Middle East outlook. As previously highlighted, we are transitioning to a new facility in Saudi Arabia, which was expected to be a headwind to our financial results in the period. The qualification of the facility is extensive, and the process has taken us more time than previously anticipated. We are now undergoing final production testing and expect final certification of the facility by the end of the second quarter, at which time we anticipate an acceleration of orders in country.

We remain confident in meeting our full year expectations, as we have secured plans to accelerate recognition of these orders. Alf will cover the near-term financial impacts during his prepared remarks.

Our results in the period also reflected our ability to effectively navigate the ongoing challenges facing the global supply chain. Inflationary pricing and logistical bottlenecks have resulted from a number of factors: the energy transition, the global pandemic and the Russian invasion of Ukraine have all played a role, disrupting access to key commodities and supply routes at a time when the global economy has quickly transitioned from a period of contraction to one of accelerating growth.

While we are not immune to all of the market dislocations, we have taken many strategic actions over the last several years that have mitigated the near-term effects. We are utilizing lessons learned from previous growth cycles to drive simplification, standardization and industrialization throughout the organization. We have increased supplier diversification to reduce dependencies on sole-source supply while adding supply chain capacity to ensure proper balance with internal manufacturing capacity. And we are developing stronger relationships with our supply chain. Much like the alliance partnerships and frame agreements we have developed over the years with our customers, we are working more closely with our supply chain partners to better integrate them into our planning processes. Strengthening these long-standing relationships will keep us well positioned in times of market volatility.

Our Subsea 2.0 product platform is our most prominent example of industrialization, allowing for the successful implementation of a configure-to-order or CTO model. CTO has enabled us to create a value stream that delivers a more competitive offering to the market when compared to an equivalent engineered-to-order product, resulting in a 25% reduction in cost and a 50% reduction in product delivery time, savings that are both real and sustainable. And we have paved the way for other products to adopt a similar operating model, enabling an enterprise-wide approach. This resulted in three CTO principles that serve as the fundamental basis of how we operate in this environment. First, we are eliminating design engineering. Second, we have redefined our sourcing strategy by utilizing preapproved suppliers and standard configurations. And third, we are transforming manufacturing flow by leveraging configurable assemblies.

With CTO, the greater predictability of product manufacturing and high volumes of pre-engineered components has allowed us to completely redefine the supply chain, removing significant inventory from our balance sheet and cutting up to eight months of lead time. Ultimately, our success is determined by our execution, our client relationships and our contractual arrangements. Project execution remains a core competency and oftentimes a point of competitive differentiation, but it is also dependent upon the partnerships we establish with both our customers and our suppliers. We are seeing strong support from our customers to ensure we can address their needs both today and throughout this evolving period of increased activity, an example of which is a new framework agreement with TotalEnergies that will utilize Subsea 2.0 to address their future technology needs. And we are seeing improvements in contractual arrangements that more appropriately balance the terms and conditions needed to support this growth, be it through more favorable payment terms or supplier investment and risk-sharing.

In Subsea, we had a very strong start to the year with inbound orders of $1.9 billion and a book-to-bill of 1.5. This included two announced awards in the period: Petrobras' Buzios 6 greenfield development and Wintershall's Maria revitalization iEPCI project. This is our first iEPCI with Wintershall DEA, an award built on our ability to leverage our iFEED model. Through early engagement, we optimized the field layout to maximize the benefits of integrated project execution. Our involvement helped reduce the project's carbon footprint by modifying existing infrastructure, eliminating the need for an additional 4,000 meters of pipe. What stands out most in the quarter is the breadth of the inbound, nearly 40% of which came from smaller unannounced project awards, much of which was direct awarded to our company. This is a very diverse source of inbound. These smaller awards in the quarter included projects for more than 30 operators, sourced from all major basins across the globe.

Beyond project activity, Subsea services remained resilient in the quarter despite the impact of weather-related seasonality. Activity trends remained favorable and consistent with our view that Subsea services revenue will grow to approximately $1.2 billion this year.

With energy security now a clear global priority, both operators and suppliers are working more collaboratively in the current environment. Our conversations with clients today are focused on balancing the need for new and different sources of supply with the challenges of more scarce resources, be it commodity inputs, skilled labor, supply chain logistics or physical capacity requirements. This increased and constructive dialogue supports our view that we are in the midst of a multiyear up-cycle for oil and gas.

Our Subsea opportunity list continues to highlight a very robust market outlook, representing an opportunity set of larger projects that totals more than $20 billion for the industry, led by Brazil, Guyana and West Africa. Looking ahead, we expect increased activity in other regions of the world in order to meet the growing global demand for feed gas used in LNG facilities, the majority of which is supplied by subsea wells. We expect these volumes to be supplied by increased activity in major basins from Africa to Asia Pacific. We have a strong track record with large gas developments and are well positioned as an agnostic provider of integrated subsea projects. The expanding LNG market gives us an even greater confidence in the intermediate-term outlook.

We continue to anticipate Subsea inbound order growth of up to 30% in 2022, with iEPCI direct awards and Subsea services together approaching 75% of our inbound orders.

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

Alf T. Melin - *TechnipFMC plc - EVP*

Thank you, Doug.

Total company inbound orders were $2.2 billion in the quarter, driven by strong Subsea inbound of $1.9 billion. Total company backlog grew sequentially to $8.9 billion at the end of the period.

Revenue in the quarter was $1.6 billion. Adjusted EBITDA was $154 million, which included a foreign exchange gain of $28 million.

First quarter reported loss from continuing operations was $0.09 per diluted share, which included after-tax charges and credits that netted to an expense of $29 million or $0.06 per share. These charges included the following: expenses totaling $1 million related to impairment, restructuring and other charges; and a loss of $29 million on our equity ownership in Technip Energies. When excluding the impact of charges and credits, our adjusted loss from continuing operations was $0.03 per share. The adjusted loss also included the foreign exchange gains.

Turning to segment results. In Subsea, revenue was $1.3 billion, up 4% from the fourth quarter. Adjusted EBITDA was $129 million, with an adjusted EBITDA margin of 10%, in line with the fourth quarter. Revenue increased sequentially primarily due to higher project activity in Australia, North America and Asia, partially offset by reduced activity in Africa. Subsea services revenue was largely unchanged from the fourth quarter due to the seasonal impact of weather in both periods. The increase in adjusted EBITDA was broadly in line with the sequential increase in revenue.

In Surface Technologies, revenue was $267 million, down 7% from the fourth quarter. Revenue decreased sequentially primarily due to lower international activity resulting from our transition to the new manufacturing facility in Saudi Arabia. The decline in segment revenue was partially offset by growth in North America, which benefited from the continued increase in drilling and completion activity. Adjusted EBITDA was $22 million, a 24% decrease sequentially. Results were negatively impacted by lower international revenue and the impacts of the manufacturing transition, partially offset by higher activity and an improving pricing environment in North America. Adjusted EBITDA margin was 8.2%.

Turning to corporate and other items in the period. Corporate expense was $30 million, which included $3 million of restructuring and other charges. Net interest expense was $34 million and is expected to decline during the year as we achieve our stated objective to reduce gross debt. And tax expense was $26 million.

Cash required by activities from continuing operations was $329 million. Capital expenditures were $27 million. This resulted in free cash flow consumption of $357 million in the first quarter. The outflow, which we expected and highlighted in February, was largely due to a working capital consumption related to the timing of project milestones and the payment of annual incentives. As discussed when we provided full year guidance, we expect free cash flow to be weighted to the second half of the year, similar to 2021.

Our Subsea operations have seasonally higher activity levels in Q2 and Q3, which drives major milestone collections throughout the second half of the year, with Q4 being our strongest period of cash generation.

We ended the quarter with cash and cash equivalents of $1.2 billion and net debt of $802 million.

During the first quarter, we sold 17.8 million Technip Energies shares, for total proceeds of $239 million. In April, we sold our remaining 4 million shares. Following the partial spinoff in February of last year, we retained ownership of 49.9% of Technip Energies' outstanding shares. We have now fully exited our position, for total proceeds of $1.2 billion.

Continuing with our focus on debt reduction, last week, we commenced a tender offer for $320 million of our outstanding 6.5% senior notes due in February 2026. When combined with the retirement of additional debt maturing in June, we expect to reduce gross debt by up to $400 million in the second quarter. This would imply gross debt of approximately $1.6 billion at the end of the second quarter and would represent nearly a $1 billion reduction in gross debt since the spin-off in the first quarter of 2021.

Lastly, let me provide some thoughts on the second quarter. For Subsea, we expect the second quarter to benefit from the typical seasonal uplift, with sequential revenue growth of approximately 10% driving margin expansion of up to 200 basis points. For Surface Technologies, we expect revenue growth in the high single digits, with incremental EBITDA margins of up to 30%. I would also note that our second quarter results continue to be negatively impacted by the transition to our new Saudi facility.

I will now turn the call back over to Doug for his closing remarks.

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

Thank you, Alf.

Before moving to Q&A, I would like to reiterate a few key points. First, we are in the midst of a multiyear up cycle for oil and gas investment. In Subsea, we are experiencing improvements in pricing and contractual arrangements that more appropriately balance the terms and conditions needed to support this growth. In Surface Technologies, we will continue to prioritize technology, integration and cash generation over growth due to the structural changes in this evolving market. And we are confident in a recovery in surface international orders in the back half of the year. Second, the separation of Technip Energies is now fully complete, with the final sale of our remaining ownership stake just 14 months from the date of the partial spin. And lastly, our $1.2 billion cash position and our confidence in generating strong free cash flow in the second half of the year are allowing us to take aggressive steps to further reduce our gross debt, another important milestone on our path to shareholder distributions.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Ian MacPherson of Piper Sandler.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Doug, you mentioned 40% or so of your $1.9 billion Subsea inbound coming from your smaller direct awards from 30 or so operators. That just seems certainly unprecedented in recent memory. Is that bucket of orders more reflective of the recent improvement in pricing that you're describing than, say, the larger orders are? Or is your language around price improvement more representative of the entire pipeline of new orders?

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

Thanks, Ian. Interesting question. Let me start by agreeing with you that the breadth of clients, both geographically and just the sheer number, was a very strong indication of the offshore outlook going forward. And we still had contributions from all the big IOCs and from the NOCs, but what we saw was just an ever-expanding group of smaller -- or independent operators. And they're attracted -- they're attracted to the iEPCI model because it allows them to move projects forward in a very short order, improving the overall project economics significantly, with a company that has a proven track record in delivering these iEPCI projects that we pioneered back in 2017. So in that response, you could gather that there's a real value recognition by those clients in that -- in the offering and the uniqueness of our position within the marketplace. That being said, the pricing is not solely dependent on any one of those groups. It is more general across the board, but we are really, really excited about this ever-emerging client base offshore. And our ability to capture that is actually quite remarkable.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Yes indeed. And so with the improved conditions with pricing in your Subsea business, does that impact your view on the 15% Subsea margins, mid-cycle margins, that you described at the Capital Markets Day in November? Does that look like it could materialize sooner than you thought 4 or 5 months ago because of the increased volume coming into the market now?

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

Yes.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Okay, all right, good. If I can ask one more. Alf, you mentioned that with surface 30% incremental margins in Q2 but still with some headwinds from the new facility ramp. Would you care to quantify what that impact is so we can roll forward our thoughts on second half Surface margins?

Alf T. Melin - *TechnipFMC plc - EVP*

Sure. I'll give you some color to that. So we clearly signaled in the fourth quarter call that we expected an impact from this facility transition. I would say that we signaled at the time that it would be up 200 basis points, I believe. It's in that range, the impact that we're seeing in the quarter. And if you're kind of dialing ahead, you think about Q2 performance, I think you need to look at it at the surface segment as a function of North American progress, where we are seeing the activity continuing to ramp up and continuing to be favorable; as well as we mentioned also that we do see pricing. And pricing is a focus, definite focus, for us in the North American market as well, but admittedly, the Q2 will continue to be soft on the international side. And the Saudi facility will still impact the second quarter, so really you will not see the major margin ramp-up in Surface until the second half of 2022. And again based on those dynamics of North America market continuing to do well -- and we expect to fully -- we are taking actions today to be ready to handle all the Middle East orders that we are expecting that will come our way here and towards -- during second quarter and onwards. And we are ready for that, and we're going to be seeing significantly improving revenue and EBITDA performance in the second half of 2022.

Operator

Your next question comes from Arun Jayaram of JPMorgan Chase.

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

Yes. I wanted to -- Doug, to zero in on some of your comments around pricing improvement and improving terms and contracts. You booked $1.9 billion of inbound awards in Subsea. I was wondering if that commentary was reflective of the order -- of your 1Q order book. Or is this more on the (inaudible) and just thoughts on what the margin profile could look like relative to the 11% to 12% guide you have for this year. Would you expect the newer orders to be kind of accretive to that outlook as you work on the path towards 15% margins, as Ian mentioned, in that 2025 time frame?

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

Okay, thank you, Arun. Let me take this opportunity to kind of break down the pricing environment for us between our businesses and globally, if you don't mind. In doing so, I'll be able to answer your question. So let's start: 2 businesses, Surface and Subsea. So let's start with Surface; 2 very different markets that we serve, the North America market and the international market. In the North American market, it's almost like a tennis match at this point. It's a constant volley. Pricing goes up. Inflation goes up. Pricing must go up again to maintain that pricing, it's that active. When you go into the international market, there tends to be longer-term contracts, frame agreements. And in this scenario, we are actively looking -- those contracts have pricing mechanism in them, but we are also looking to supplement that with incremental pricing given the current market conditions. Those are ongoing, and we would expect to see the impact of those more in the second half of the year.

Moving to Subsea. There's really 2 different approaches that are unique to our company, and let me explain those as the 75 and the 25. So the 75 is the percentage of our market that is direct awarded. This is through our unique iEPCI offering, our alliance partners and our services. Here our clients are truly looking for value creation and are very comfortable and acknowledge the value that we contribute. And they want to make sure that we are economically rewarded. So it is an ongoing discussion and a very comfortable and collaborative environment in which for us to continue to ensure that we are capturing an economic value that is appropriate in what we create as well as in the environment in which we exist. The 25% is the open competitive market, 3 bids and a buy, if you will. I hear the returns are improving but still not adequate. We are addressing this with, I would say, an aggressive pricing position as well as the terms and conditions that I've alluded to throughout my prepared remarks. So when we think about how -- what does that mean for us, knowing that we have the 75% allows us to be very selective in the 25% and allows us to help industry in general but certainly ourselves by driving the appropriate terms and conditions given the current market environment. And that can be an enhancement of the traditional indexes that are -- that exist in the contracts today, but it also has to now be able to address supply scarcity. In some cases, there's supply rationing going on. We need to make sure that we're protected by that in our contracts. Or what I would call extraordinary inflation when you have disruptions of the supply chain, like for instance what happened to nickel in this last quarter. So we're enhancing those features within the terms and conditions of our contracts, but it also allows us to simply no bid contracts. So we have been no bidding billions of dollars of contracts, and still recording a $1.9 billion inbound of high-quality inbound. And just one last comment on the $1.9 billion of high-quality inbound: That is absolutely accretive to the margins backlog, but it isn't just the beginning. We started -- and the inflection actually occurred 4 quarters ago. And I called that at the time, that our margin in backlogs had inflected, and they did inflect over the past year. What we saw this quarter was a greater amplitude of that inflection in a positive direction.

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

Great. My follow-up is I wanted to explore a bit more in detail this path to shareholder distributions. Your net debt is at just over $800 million. You plan to pay down about $400 million of gross debt in 2Q, but I was wondering if you could frame how long the path would get. Maybe if you give us some sense of minimum cash requirements to run the business and perhaps the timing, and how you think about distributing excess free cash flow to shareholders.

Alf T. Melin - *TechnipFMC plc - EVP*

Absolutely. So first, let me kind of reiterate where we -- what we said at our Analyst Day. So we clearly said that we are committed to shareholder distributions. We said at the time that we are looking for a timing of the second half of 2023, but we said it was dependent upon reaching a certain target capital structure. That target capital structure consists of gross debt of $1.3 billion and cash of $800 million. So in that statement, kind of we think at this moment in time we need about $800 million to run the business. Now longer term, we can get into whether we can optimize that number further, but at this moment in time, that's the target capital structure. So again that's the $0.5 billion of net debt being described here. And if you look further out into this year, obviously we are -- we had a fairly weak free cash flow generation this quarter, but we remain confident in our full year guidance. And that implies that we're going to generate more than $500 million of free cash flow over the remainder of the year. And when you take all that, including considering the debt reduction, we're going to get fairly close to reaching that target capital structure by the end of the year. Now the exact timing for whether we can accelerate any shareholder distribution from that point on, I'm not going to comment on specific timing now, but clearly we are pleased with the progress that we have made with the debt reductions that were needed to get there; and the one -- the plans we have right now with the debt tender we just launched here last week, going after $400 million reduction, as you said, for this quarter. So we think the path to get towards a target capital structure is to be -- try to be there by year-end is kind of where we're targeting.

Operator

Your next question comes from Guillaume Delaby of Societe Generale.

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

Yes. 2 questions/clarification, if I may. First, Doug, regarding your comments regarding the breadth of client behavior, could you maybe give a few color regarding IOCs? Have you experienced, have you seen over the last few weeks/few months a change of behavior from IOCs? And then another question will be for Alf, maybe after that.

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

Sure, Guillaume. Indeed, it is good afternoon, sitting here in our manufacturing where we make umbilicals, and that is actually a quite beautiful day here in Newcastle. In terms of the IOCs' behavior, I don't really want to comment on their behavior, other than to say we've seen -- we have maintained activity both in terms of front-end studies, both in terms of ongoing projects, both in terms of looking at greenfield opportunities and brownfield, tiebacks to their existing infrastructure, most of which is producing below-nameplate capacity. And therefore, can be -- the economics are very attractive to be able to do tie-ins and tiebacks. And they're very excited about our all-electric offering and the attributes that it brings and our iEPCI offering because of the ability to be able to deliver 9 to 12 months prior -- or earlier than you would if you split the packages and approached it in a more traditional or more conventional business contract. So it -- not necessarily a reaction over the last couple of weeks, just an ongoing very constructive dialogue and very attractive outlook with our IOC clients who we cherish very much.

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

So my second question is for Alf. I would like to try to reconcile, and sorry about that, the timing in terms of cash flow between Q2, where you want to reduce gross debt by $400 million; and H2, where do -- you expect strong positive free cash flow. Given your comments regarding Subsea and to a lesser extent Surface Technologies in Q2, should we assume that in Q2 you might already generate some net free cash flow?

Alf T. Melin - *TechnipFMC plc - EVP*

So thank you very much for the question. So maybe, first to start off with, we are sitting at this point in time with about $1.2 billion of cash. So clearly some of the existing available cash will be the primary source for the debt reduction for the second quarter. In terms of free cash flow generation for this upcoming quarter versus the rest of the year, it's always -- even sitting here today, it's always a little bit unpredictable to say exactly how much we will get in the second quarter versus the rest of the year, but I would say that we're at least going to be neutral or trending towards neutral in the second quarter. But it remains, as I said in the prepared remarks, that the majority of the free cash flow generation is going to come in the second half of the year and, to be frank, mostly also in the fourth quarter. So overall, I mean, the main source is going to be our existing cash in terms of the debt reduction that we're doing.

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

So Q2 is an inflection point. I'll turn it over.

Operator

(Operator Instructions) Your next question comes from Chase Mulvehill.

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

So I guess, first question, Doug, is when we think about inflation, we get a lot of questions from investors around your ability to kind of preserve margin in your current backlog just given raw material inflation. I mean it sounds like that you're trying to step up the terms and conditions on the projects that you're booking today, but maybe could you talk to your backlog, what kind of terms and conditions you have to be able to preserve margin? Because obviously inflation on the raw materials is increasing quite a bit.

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

Sure, Chase. Good morning to you and welcome to the call, we are excited to have you on the call. Appreciate your interest and dialing in. In terms of the existing -- well, let me back up. What I was explaining to the response to the earlier question, which is -- given this new world order in terms of the supply chain and some of the very unique situations that have occurred of recent, what are some of the extraordinary actions that we're taking to ensure that those contracts sufficiently address those scenarios if they should reoccur? And that's what I was -- that's what my answer was focused on. In terms of the existing contracts, I just want to be very clear. We have had a very disciplined approach in our contractual arrangements, where we first and foremost, at the time that we actually inbound the order, we typically have 80 to 90-plus percent of the cost committed. So we have back-to-back with our suppliers to ensure that those costs are locked in, if you will. We also with our clients have escalation clauses typically tied to indices that protect us in terms of an inflationary environment. So those exist today. I think you can see in the performance that we've had over the last 2.5 years now -- which is hard to believe that the period that we've been through -- have been very resilient. And I think it has been widely accepted that our ability to be able to manage the inflationary environment has been, I think, I'm proud of the team, and I think actually quite remarkable. But let me talk about a couple of things that are unique to our company because what I've described there, I believe, would apply to the majority of the industry. Maybe why the last couple of years have worked out better for us is this path that we started on many years ago, which was to develop a product platform that would allow us to change and fundamentally change the way that we operate the company. And that's Subsea 2.0, which led to this configure-to-order operating model. Chase, in the past, every product was unique. Every project was bespoke. There was no consistency. And therefore, we were going out to the supply chain on each and every project and asking for something that was just a little bit different than the project before, so imagine the lack of ability -- or the strain that it put on the supply chain, let me put it that way. With this new Subsea 2.0 product platform and our configure-to-order model, we have a standard configurable design. We can take those configurable subcomponents and we can align with what we now call our CTO supply chain partners where they have volume assurance. And they can -- not only do they have the ability to be able to properly plan their business, but we then ask them to ensure that we have a consistency of supply. So if you will, they stock the raw material or those configurable subcomponents on consignment. And then we are able to draw from that as we bring in these iEPCI 2.0 awards. And that's something that is really unique to our company. It was, one, the technology development, but it was, two, you also have to have the volume and the scale. You can't do it if you don't have a significant market position, which we have secured, again, through the iEPCI, our alliance partners, which lead to these direct awards, give us this early view and early engagement and, like this quarter, allows us to book $1.9 billion of inbound where we only had 2 announced awards.

And I just want to clarify. I want to make sure there's no lack of -- or that we clarify. The Yellowtail project in Guyana with ExxonMobil that we are very excited to have been awarded was not booked in Q1. It is in the final preparation for us to inbound. And that will -- we will be inbounding that imminently, most likely in these quarters, in Q2, not in Q1. So it kind of -- it all has to work together, Chase. I don't know how else to describe it, but it would be really, really difficult. And I think it is very, very difficult for others who haven't made this transformation, this internal transformation which then also applies to the supply chain.

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

Okay, that's very helpful. The real quick follow-up is maybe for Alf. If we kind of -- obviously free cash flow was a big burn in the first quarter driven by a big build in working capital, but it's been a few years since I covered the stock. But I think historically what's happened is, when you've gotten large orders, you've gotten a lot of prepayments. Now I guess a lot of the orders were maybe smaller orders, as opposed to these large orders that you get historically in the past, so I guess maybe, when you talked about terms and conditions changing, is this better -- more prepayments on some of the smaller orders? Or what's changing on the prepayment side, if anything, as we go forward?

Alf T. Melin - *TechnipFMC plc - EVP*

Yes. No, thanks for the question. So maybe, first, just clarify to be really sure when we go backwards in time that obviously there's a big difference between when we had Technip Energies as part of our business versus now. So the size of the advances and prepayments on an individual order basis is going to be smaller in general, but they are still a significant part of what we do. And it's correct that, when we target new awards, we are always targeting to have what we call a working capital neutral or better position throughout the life of the project. Now as you said, this is an area where it has been maybe going in the wrong direction for us during these tougher times. And certainly part of what Doug described as tightening up the commercial terms and conditions, looking at the payment structure of our contracts is certainly part of that. When you just then look at the advanced payments or prepayments, as you call them, themselves, I would kind of say they are not necessarily always awarded totally to coincide with the signing of the contract. So for some of them, that could be dependent on an early activity, some sort of early mobilization, early engineering, early procurement, so you may sometimes see a lag between when the awards are coming and when you actually see some of the impact to the working capital and to the advances. So hopefully, that helps you a little bit, but it's true that this is a focus for us. We look for prepayments and we look for them to be early in the contract but, again, dependent on some milestones.

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

Okay, all right, makes sense. I'll turn it back over.

Operator

Your next question comes from Bertrand Hodee of Kepler Cheuvreux.

Bertrand Hodee - *Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research*

Yes. A question on the CTO model. You rightly explained at the Capital Market Day last year that volumes is critical to reach and deliver the full benefit of the CTO model. Given your outlook for Subsea order intake -- and when do you think you will be in a position to deliver the full benefits from the CTO model in the coming quarters? Or when do you think you will be able to really fully deliver the benefits?

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

Thank you. A very intriguing question. So let me start by saying you have to go through the -- you have to develop the technology, go through the transformation to be able to have the ability to be able to realize the benefit. Then it really becomes a factor of 2 things. One is gross volume. And two is, let's call it, net volume or the volume associated with the most levered industrialized product platform that we have, which today is Subsea 2.0. And we started with trees and we moved to controls and we're moving to umbilicals. And so it will eventually grow across the whole platform. So it's an ever-evolving opportunity set for us. And I think that's important that -- we expect Subsea 2.0 to represent 50% of our inbound over the next couple of years, so that's important -- well, let me back up. Let's start with the gross inbound. So we've obviously seen the growth in the gross inbound since 2019. And we obviously delivered a strong inbound last year of $5 billion. We indicated $6.5 billion this year. We booked $1.9 billion in the first quarter. We had a book-to-bill of 1.5, something we haven't experienced since Q1/Q2 of 2019, so the past 3 years. So the gross is stacking up very nicely. Then there's the net, where there's the portion of that, that really benefits mostly from the CTO model, so we're saying 50% of Subsea 2.0 over the next 2 years. Beyond that, we will continue to expand the Subsea 2.0 product platform across our entire product offering, so you'll continue to build upon that. And that is this never-ending drive towards industrialization, so we have a very specific focus on this in the company in everything that we do. And we're seeing some real benefits today, but we'll see a cumulative and compounding benefit as we continue to move forward.

Bertrand Hodee - *Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research*

Yes. And a follow-up question on the frame agreement with TotalEnergies. TotalEnergies, especially in Angola and Block 17, has many, many tie-back opportunities, but they are not yet convinced by the iEPCI. Or am I -- misunderstood? It's a frame agreement, Subsea 2.0, but they are not going yet through the iEPCI concept.

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

I don't necessarily agree with you, but I don't think it's appropriate for me to comment. I think I'll leave that up to the customer and when we announce our awards.

Bertrand Hodee - *Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research*

Okay. I was just speculating. I have no view on Total's choice. I was just thinking that, because of this frame agreement, it was not an iEPCI approach, but I think you answered my question, telling me I was wrong.

Operator

Your next question comes from Marc Bianchi of Cowen.

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

Just a quick clarification, first. And I think it's straightforward, but I just want to be sure. The guidance for the second quarter, the outlook for the second quarter was just at the segment level. And if there's any FX up or down in the second quarter, that wouldn't be reflected in the segment, so essentially the guidance you've provided excludes any changes in FX. Is that correct?

Alf T. Melin - *TechnipFMC plc - EVP*

That is correct.

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

Okay. And then on orders. So 40% from the smaller customers. And then in the second quarter, you should get some benefit from a higher services inbound and recognition, potentially Yellowtail being recorded in that quarter. It would seem that there's a chance you're maybe flat sequentially on the order outlook or at least above what would be needed to kind of be on track for that 30%, so I'm wondering if that's the right way to think about it or if there were some other unusually positive benefits in the first quarter that would cause the second quarter to be dramatically lower.

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

We -- at this point, from what we can -- our view of the second quarter will absolutely support a 30% improvement in our inbound orders. So again, Q1 clearly does, Q1 times 4. I'm not suggesting anything by saying that. I'm just saying it clearly supports that. We expect Q2 to be above a 1.0 book-to-bill again. And when we look at the second half, we look at the second half in total to be above a 1.0 book-to-bill, so we remain very confident in our inbound outlook.

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

Yes, super. I'll turn it back.

Operator

Your last question comes from Jean-Luc Romain of CIC Market Solutions.

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

I was wondering. How much of your inbound in the first quarter comes from carbon capture project, if there is some? Or when do you expect your various collaborations, for instance, with Talos, to bring about contracts for you?

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

Jean-Luc, thank you for the question. In the Q1 inbound, there was no carbon capture inbound recognized in that number that we provided. That was a pure Subsea number. The projects with Talos are advancing well. The opportunity set is actually expanding. And we are well into the FEED study on several projects. And the level of collaboration and market impact that our relationship with Talos is having -- we're just really, really glad to be partnered with Talos and are looking forward to announcing awards in the future.

Operator

No more questions. Speakers, please continue.

Matt Seinsheimer - *TechnipFMC plc - VP of IR*

This concludes our first quarter conference call. A replay of our call will be available on our website, beginning at approximately 8:00 p.m. British summer time today. If you have any further questions, please feel free to contact the investor relations team. Thanks for joining us.

Operator, you may end the call.

Operator

This concludes today's conference. Thank you all for joining. You may now disconnect.
